

Perspectives on public choice

A handbook

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Economic theories of the state

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In rough outline, political economists have contributed to three categories of explanatory theories of the state based on arguments from, respectively, public goods, coordination, and evolutionary stability. The best known of these and the most extensively articulated are theories that build on public goods, in part perhaps because the theory of public goods has long been relatively well understood in a crude form, and in part perhaps because the public goods theory seems to yield not only an explanation for but also a justification of the state. In any case, the long tradition that grounds the state in the demand for public goods and in the state's capacity to deliver such goods has been both normative and explanatory. The other two traditions are primarily explanatory and not normative.

In its most literal variants, the public goods tradition supposes that people deliberately create the state in order to provide themselves with goods they could not individually provide for themselves, as, for example, by literally contracting to establish government. This bootstrapping move is circular if it is supposed that the state is itself a public good. In frustration at failing to provide ourselves some public good, we merely provide ourselves another that then provides us the one we failed to provide. Although it has not fully withered away and may occasionally betray signs of spontaneous regeneration, this branch of the tradition was finally cut off by Mancur Olson's argument of the logic of collective action (Olson 1965). According to this logic, I rationally contribute to the provision of a collective good only if I get more value from the bit of the collective good that my contribution buys than that contribution costs me. Commonly, in the contexts of large scale collective action, my contribution returns vanishingly small benefits to me, so that it costs me more than it is worth to me. Hence, although all of us might receive a large net benefit *if we all contribute*, none of us may have any interest in contributing.

In its credible variants, however, the tradition that associates the state with public goods is largely about what difference it makes that some

goods are more successfully or efficiently provided collectively through the state than individually through the market. The public goods theory of the state seems to involve one or both of two claims. The first claim is that certain characteristics of public goods require that they be provided by a central agency acting on behalf of the larger group of beneficiaries. The second is that collective provision merely has advantages over individual provision. This claim is surely true in some cases, but it should be weighed against the disadvantages of a state empowered to provide bads as well as goods. The claim is consistent with the possibility of totalitarian and exploitative states as well as liberal states; totalitarian and exploitative states seem either contrary to or outside the first claim. The sanguine view of David Hume and Adam Smith that the state can perform miracles of dredging harbors and raising armies beyond the capacities of individuals spontaneously acting together – which is often taken as a statement of the public goods theory – is consistent with both the first and second claims. Just because we are coordinated in support of the state, the state can exercise great power. But this could be a by-product of coordination for mere order.

From even a casual survey, it should be clear that there are two classes of strategic interactions that produce what might sensibly be called collective goods or collective provisions of benefits. One of these has the traditional form of the prisoner's dilemma and fits Olson's logic of collective action. At least some of the goods that can be provided through interactions of this form have central characteristics of Paul Samuelson's public goods. Many others do not; for example, collectively negotiated wage increases take the simple form of money in individual pockets, not the form of radio signals or national defense.

The second class of strategic interactions that lead to collective benefits comprises coordinations on mutually preferred outcomes. In a prisoner's dilemma interaction, I prefer the outcome in which everyone else contributes to the provision of our good while I do not contribute but free ride; every other member of our group prefers a different but analogous outcome. Hence, our choice is not one of simple coordination. But in the regime of driving either on the left or on the right, we all share the identical interest of driving on the side that virtually all others choose. If we successfully coordinate on one side or the other, we all benefit. The language of prisoner's dilemma, collective action, and public goods has come in recent decades to dominate the image of what it is we collectively want to do. But much of what we want is much less conflictual than the free-rider problem. For example, for most of us, there is no incentive to free ride on various coordinations. Indeed, there is no coherent meaning for "free riding" in the driving and other conven-

tions, except for thrill seekers for whom risking accidents is a source of pleasure.

Much of what makes the state plausibly valuable is not its provision of genuine public goods, many of which can successfully be provided by market devices. For example, radio signals are among the best examples of public goods, but they are often provided by the market. The state's chief role in providing them in some cases is merely to regulate bandwidths and interference between stations. That is to say, the state mainly helps in the coordination of the multiple provision. That is the value of the state.

In an economic theory of the state, these two classes of strategic interactions might play substantially different roles. In particular, the class of coordinations may be very important in the explanation of the rise of the state, as in the theories of Hume and Smith, or in the explanation of the maintenance of order, as in the theory of Hobbes, whereas the class of prisoner's dilemma interactions may be especially important in the justification of the state, as in many contractarian theories. There are, however, no clear lines that separate these two classes into different realms. Both yield both explanations and justifications. In explanations of the rise of the state, however, coordination interactions have a conceptually prior status. Without substantial coordination to produce order there is likely to be little exchange, hence little successful collective action. This is essentially Hobbes's theory of the state: The state produces order that allows individuals to benefit from relations with one another by first protecting them from one another. We first get to a state by coordinating on it out of a possibly large array of potential states (Hobbes 1651, chaps. 13–15, 20; Hardin 1991). This is a view shared by many of the American constitutionalists in 1787–8 when they argued for the creation of a strong government but against the concern to make it exactly right or nearly perfect (Hardin 1989).

1. A brief history

To simplify somewhat, Hobbes presented essentially a coordination theory of the state, the chief benefits of which were order among individuals and the possibility of property and exchange. Coordination on a government could come by contract or it could come from a past history of conquest or revolution.

Hume and Smith presented philosophical (that is, speculative) theories of the rise of the state. They combined a coordination theory with a nascent public goods theory. Hume (1739–40, 541) supposed the earliest governments were a response to fear of external attack. They were

monarchical because their central concern was capacity to respond to sudden events; hence, capacity to coordinate in the face of attack even dictated the form of government. Once a leader arose, all others had an interest in following him. The engaging part of their theories is their focus on explaining the growth of centralized power in its relation to mutual interest and then, eventually, the amassment of resources. But the literature they spawned generally drifted into a relatively uninteresting debate on whether their sequences of development from primitive societies through pastoral to large agrarian states were historically correct or functionally determinate.

Hume and Smith also contributed to the growth of the public goods theory of the state. In this theory, it is supposed that the state arises in order to supply collective benefits that would not be provided by spontaneous collective action. Hume comments that government can perform minor miracles in doing such things as dredging harbors and defending the nation. He seems to have recognized the difficulty of doing these things through voluntary collective action (Hume [1739–40] 1978, book 3, part 2, sec. 7, 538–9). The public goods theory is often not simply an explanatory theory but a normative theory. In its normative variant, it is state provision of public goods that justifies the existence of the state and the use of its coercive devices. If the theory is strictly explanatory, it is subject to the bootstrapping complaint above – we resolve the problem of failure to supply public goods by supplying a super-public good, the state, so that it can supply lesser public goods.

A more plausible way to fit the public goods theory to explanation is to suppose that the capacity to provide public goods gives a state survival value. Hence, those states that can supply public goods tend to prevail over those societies that cannot supply them. In Smith's vision of the market economy, the state that provides public facilities of some kinds enhances the prospects for productivity and prosperity – Smith's wealth of nations. Such wealth then may feed back into empowering the state for further actions.

Much of contemporary writing has dropped the coordination theory to focus exclusively on the public goods theory. Part of the reason for the latter development may be the sophisticated articulation of the public goods theory, especially in the work of William Baumol (1952) and Olson, that goes well beyond the understanding of Smith, Mill, and others among the classical political economists. Olson built his argument from Samuelson's elegant theory of public goods (Samuelson 1954). Despite clear articulation of general coordination theory (Schelling 1960; Lewis 1969), it has not been as widely developed.

John Stuart Mill frequently made arguments that some provisions cannot be rationally motivated at the level of the individual acting spon-

taneously but must be accomplished through centralized state intervention. For example, he argued that it is conceivable that workers could not secure themselves a nine-hour workday merely by individually refusing to work longer, but that they might require a law against a longer day. This would be true if the following incentives applied. All workers would rather work nine hours than ten if they could make nearly the same pay for the shorter day. But if some voluntarily worked only nine hours, others would then prefer to work ten hours for the hour's bonus pay. Finally, all would be forced to work ten hours and to take less pay than ten times the hourly rate of a nine-hour day. Under these conditions, the workers face the logic of collective action and they would benefit from legal enforcement of the nine-hour day. The nine-hour day might therefore be a benefit that virtually requires coercive state provision (Mill 1965, book 5, chap. 11, sec. 12, 958).

Economic theories of the state are now commonly stated in terms of Samuelsonian public goods, the prisoner's dilemma, and coordination games, all of which have been well articulated only in the past half century. These seem consistent with elements of theories of the state and government from the earliest days of western political philosophy. The prisoner's dilemma and public goods analyses are closely related. The prisoner's dilemma is more general than the public goods analysis in that it depends only on the relationships of net payoffs independently of whether these are technically subject to the conditions defining public goods. It is less general in that it does not include cases of public goods whose costs of provision are less than their benefits to single players (as for Olson's "privileged" groups). Coordination theory is distinctively different from the prisoner's dilemma and public goods theories.

2. Coordination

In many contexts we all benefit if only we all coordinate on doing the same thing. We all drive right, speak the same language, or use the same measuring system. There need be nothing inherently right about the choice we de facto make. All driving left would be as good as all driving right. But if all have coordinated on driving right, then driving left would be wrong because harmful to some and not beneficial to anyone. Our coordination is not itself a good; rather it is a means, it enables us to do other things more successfully.

The greatest of coordinations is that which maintains social order or which selects one out of an array of possible governments or forms of government. Consider the maintenance of social order. We create or find ourselves in a state. Even with very limited power that state can maintain order by sanctioning the occasional miscreant. Faced with our

government, most of us have no expectation of gain from various crimes. Our effective acquiescence in the state's ordering of the society is what enables the state to marshal its limited resources against the few who do not acquiesce. When this works well, then, *ex ante*, none of us can free ride on the order created by others. We virtually all face a net expectation of personal loss from going against that order.

At any given moment I might wish to cheat and break the law. But I cannot free ride in the sense of free riding on the general coordination that establishes order. If, along with others, I coordinate on the creation or maintenance of order through the creation or maintenance of a government and its laws, I am then subject to whatever coercions are available to that government to make me be orderly. Moreover, in most moments, I am inclined in favor of imposing order on others who might violate it. Therefore, the regime of order continues to be a preferred coordination outcome. Indeed, since few people have ever participated in the creation of their society's order, the only coordination of which they are actually part is that of continuing support for order. The order that we have is largely archeological; we could probe down through many layers of history and not ever find anything that could pass for the creation of order.

Hobbes supposed that we would want to coordinate on the creation or maintenance of state order because this would get us out of the violence and uncertainty of anarchy. Hume assumed, on the contrary, that primitive anarchy is attractive. "Nothing but an increase of riches and possessions could oblige men to quit [the state of society without government]" (Hume [1739-40], 541). Self interest is sufficient to create order in a small society, such as that of primitive anarchy; government and law are required for a large society. If the large society can achieve greater productivity than the small society, then we may actively prefer the large society with government to the idyllic life of the small society without government. In the views of both Hobbes and Hume, government in relevant circumstances benefits everyone; hence, we are in harmony in opting for it or in wanting it well maintained.

Oddly, it may be in each individual's interest to support an extant order that is generally defective. For example, most Germans during the Third Reich may have had a perverse interest in coordinating on the stability of the Nazi regime even when they thought it might bring them disaster in the longer run. Most Soviet citizens may have had a similar interest in supporting the stability of the Soviet regime, even in its harshest days. And those who are in a subjugated class, such as the American slaves before the Civil War, may have an interest in supporting the order that subjugates them (Ullmann-Margalit 1977, 162-4, 173-6). Hence, it may be that, although the class of all citizens or that of all

those who are subjugated would benefit from a change in regime, no individual would benefit enough to take the costly action necessary to change it. In general, the logic of collective action can be devastating for any hope that we can collectively provide ourselves with collective benefits. An odd analog of that logic applies just as forcefully to the burden of switching from a defective to a more beneficial coordination. But if a Gorbachev comes along to take the lead in moving us from a defective to an alternative coordination, we may find it remarkably easy to switch for some matters.

Smith's explanation of the rise of larger from smaller pastoral states addresses the issue of coordination in selecting a government. Smith supposes that pastoral societies travel virtually as whole societies and enter into battle in conditions in which the losing side may be absorbed by the larger side. It is clearly in the interest of the individual pastoral family, once their society has been defeated and perhaps ravaged, to join with the more successful society. Hence, a victorious pastoral society may grow to be relatively invincible (Smith 1978).

3. Public goods

In Samuelson's account, public goods have two characteristics (Samuelson 1954). First, they are joint or nonrival in supply. That is to say, my enjoyment of such a good does not subtract from the possibility that others enjoy it. I turn on my radio and hear music broadcast over the air and everyone else with a radio in the relevant geographic area can still enjoy the same broadcast. Second, the goods are subject to nonexclusion. That is to say, I cannot be blocked from enjoying the good once it is provided for anyone else. Ordinary consumption goods sold in the market and such collective provisions as toll roads are subject to exclusion. When I buy a dinner, I can exclude others from consuming it. Any driver without the funds for the toll can be excluded from a toll road.

The peculiarity of the ideal type of a good that is nonrival in supply is that, once it has been provided for the enjoyment of one person, it is providable at no further cost to all other persons within the range of the good. For example, a radio signal, once provided at all, may be freely used by all. Productive efficiency generally requires that goods be sold at their marginal prices. The marginal price of a good that is nonrival is zero. Hence, if it is to be efficiently provided, the good should be given away. Provision by the state therefore might be more efficient than provision by the market.

Technically speaking, there may be no good of any political or economic significance that is inherently subject to nonexclusion. Indeed,

the technology of exclusion is a growth industry with frequent innovation. At worst, we may use the law to penalize those who enjoy goods that are virtually joint in supply and thereby to exclude people from their enjoyment. But if exclusion is costly, paying for provision of a good with general revenues and making its use free to the user might be far more efficient than individual provision only to those who pay.

An extreme coordination theory might hold that a desirable state need provide few public goods. It could merely enable individuals to provide such goods. This is analogous to the state's role in dyadic exchange. The state does not provide the gains from dyadic exchange – it merely enables us to enter exchanges with confidence by blocking unilateral appropriations and providing contract enforcement. So, too, it may provide merely the regulatory backing for independent entrepreneurs to provide actual public goods, such as radio signals, ideas, computer software, and so forth. Mandeville and Smith supposed that the pursuit of private profit could lead to great public benefit, although it would be odd to say that the pursuit of private profit is a public good itself.

For many writers, the defining public good that requires and justifies the state is defense. Many writers follow Hume in supposing that defense was the initial reason for government. Maintaining order may require little more than coordination in which no one bears an expected cost in return for the expected benefits. Defense, however, seems necessarily to require individual risks or outlays of costs that the individual might be able to dodge while still benefiting from the risks and outlays of others. For a very small society, such as Smith's hunting society, the incentives that come from reciprocal interaction can induce the cooperation of all. For a large society, such incentives may not suffice and the state may require legal sanctions. In Olson's theory, the small society would be an intermediate group and the large society would be a latent group.

4. Prisoner's dilemma

Prisoner's dilemma is the game theoretic model of dyadic exchange interactions when there are potential gains from trade. Suppose we both prefer to be in the state in which I have your property or labor in return for mine, although either of us would prefer to have both. To make exchange work, we need incentives to keep either of us from merely taking what the other has with nothing given in return. In Hobbes's theory, the first purpose of government is to prevent such unilateral appropriation. Once the outcomes of unilateral appropriation are blocked, exchange reduces to a matter of coordination in which we both move to become better off as compared to our condition in the status quo before exchange.

In an iterated interaction in which two people repeatedly face a similar prisoner's dilemma structure of choice, we can commonly expect that they will cooperate for mutual benefit even without regulation by the state. If I refuse to cooperate and, instead, defect continuously, you will soon also defect in order to reduce your losses. When we both defect in standard exchange contexts, we maintain our status quo positions and lose opportunity for mutual gain. By cooperating repeatedly, we gain repeatedly from the implicit exchange of our prisoner's dilemma (Taylor 1976; Hardin 1982; Axelrod 1984).

Some scholars suppose that even in iterated prisoner's dilemma cooperation is irrational. By backwards induction they argue that, in a fixed run of n iterations, on the n th play rational players must defect in what is, after all, now a single-play prisoner's dilemma. But since this choice is now fixed in advance, it follows that the immediately previous play is de facto the last on which a choice can be made. If it is de facto last, it follows that rational players must defect on it as though it were a single play. And so on back to the first play (Luce and Raiffa 1957, 98–9). Against this deterministic argument, note that a chooser facing the first play in an iterated prisoner's dilemma can give the other player a contrary signal by cooperating rather than defecting. This wrecks the backwards induction, thus making it rational for the second player to consider cooperation. If the players are able to cooperate for even a few plays in many iterated prisoner's dilemmas, they stand to have a larger payoff than if they defect in all plays. Hence, it may be rational for each player to wreck the backwards induction argument by playing against it. The backwards induction argument is therefore self-contradictory, because it recommends deliberately cooperating in order to wreck its assumptions – if the induction is correct, it is therefore rational to violate it. Hence, in iterated prisoner's dilemma, mutual cooperation can be rational (Hardin 1982, chap. 10). The prospect of such cooperation gives some support to anarchist and extreme libertarian views that we can do without the state beyond, perhaps, very minimal functions, including the function of preventing theft (Nozick 1974). (There are other arguments against the backward induction conclusion. Many of these depend on bits of clever reasoning that seem to be more nearly the invention of theorists than a characterization of the choices of any actual choosers. The most widely cited of these is perhaps that of Kreps et al. [1982].)

Unfortunately, however, this conclusion does not generalize to n -prisoner's dilemma. If n is very small, we might expect some cooperation, but if it is very large, a group of cooperating players typically cannot be made better off by defecting in response to a single defecting player. In 2-person iterated prisoner's dilemma, my defection in re-

sponse to your defection is directly in my interest. It need not be motivated by an urge to sanction you or even by a long-run hope of getting you to cooperate. In iterated n -prisoner's dilemma, successful cooperators lose the benefits of their subgroup cooperation when they defect against a defector. Hence, it is not in their immediate collective interest per se to defect. They might nevertheless do so in order normatively to punish the defector or in order rationally to induce that player to cooperate in the future. But the latter hope may be very dim. In n -prisoner's dilemma, it can be possible continuously to take a free ride on the cooperative efforts of others over many iterations. In 2-person prisoner's dilemma, this is typically not possible.

Two-person prisoner's dilemma is resolvable with cooperation when iterated, but n -prisoner's dilemma for large n is not resolvable. Smith supposed the maintenance of order is a simple matter in a primitive hunting society – not least because there is little property to provoke theft – and that it can be sustained by democratic decision and action. His account, though brief, is essentially that of later anarchists. It could be filled out with claims that there are reciprocal, iterated interactions among all the members of such a society, so that they can successfully sanction one another to act appropriately. In a pastoral society, the scale is greater and there may be need for specific leadership and authority to sanction miscreants. In more advanced societies, there is finally need for law and its regular application. Somewhere between a small pastoral society and the more advanced society, the anarchist's model can no longer work because we cannot be engaged in reciprocal, iterated interactions with more than a small percentage of our fellows. There is no free riding in the small hunting society because there are not enough people to let anyone free ride. Everyone is face-to-face with everyone else.

5. Composition from individual to collective

Among the oldest problems of social theory is the fallacy of composition. In the social variant of this fallacy, it is supposed that many individuals, all of whom have some property or characteristic, such as rationality, can be composed into a collective of some kind that has that same property or characteristic. One might generally suppose it is such an assumption that lies behind the standard move in international relations to treat states as rational actors. By his own account, Kenneth Arrow once thought it obvious that citizens' preferences on international policies could be composed into a coherent state policy (1983, 3–4). Challenged to show this, he showed instead that it was false in general. With more than four decades in which to ponder Arrow's result (*ibid*, 4–29), we now suppose it obvious that a state's policies are not merely an

aggregation of its citizens' preferences. A striking implication of the public goods theory of the state is that it fits contexts in which there might be uniform preferences, so that the state could merely aggregate individual preferences. That this is an implausible assumption for a state in any complex society with diverse preferences suggests the irrelevance of the public goods theory for any but a few basic matters, such as defense against outside forces.

To skirt the problems of Arrow's result (and perhaps its implications for the public goods theory), some writers suppose we could reach harmonious agreement on a form of government that would then handle the issues on which we have little hope of achieving harmonious agreement directly. Hobbes's theory essentially fits this view (Hardin 1991), which is also the view of the contemporary Virginia school (Buchanan and Tullock 1962; Brennan and Buchanan 1985). If the condition of anarchy is sufficiently chaotic and destructive of productivity and wealth, as Hobbes assumes it must be and as recent experience in Lebanon, El Salvador, Somalia, and many other societies suggests it often is, then the critical move of the public goods theory is the initial creation and maintenance of a viable state. But this must be the result of social evolution and coordination, not of bootstrapping.

In his theory of democratic voting, Anthony Downs (1957) avoids Arrow's problem by assuming that the issues for collective decision can be arrayed on a single dimension, such as from left to right. Then, although we typically would not achieve harmonious agreement, we could achieve majority agreement. Adding further dimensions to the choice brings back the possibility of cyclic collective preferences and even of chaos that could lead us collectively to select almost any point in the choice space.

6. The contractarian tradition

We cannot give a straightforwardly intentionalist account of the creation of the state as a direct response to demands for collective provision. This move fails in Thomas Hobbes's account, as he himself seemed to recognize. He noted that mere agreement to select an all-powerful sovereign could not endow the sovereign with power (Hardin 1991, 170-1). The nearest such event was perhaps in Philadelphia and then in U.S. state conventions in 1787-8. However, even this event was made possible by the existence of a prior state under the Articles of Confederation. The creation and adoption of the Constitution was essentially a reform of the prior form of government. That constitution coordinated the thirteen states and their citizens on a new form of government with substantially more power at the federal level (Hardin 1989).

What we can often give, instead of an intentionalist account, is a social-evolutionary account. If a state happens to take on the task of some collective provision that gives the state greater survival value in the competition with other states and with potential anarchy, then the relevant collective provision tends to support that state. For example, state provisions that lead to greater productivity increase the scope for taxation to enhance the resources of the state. These resources might be used to block external competition or to control internal opposition. Hence, the capacity of the state to provide collective goods may be critical for its survival even if not for its origins. Provision of goods such as roads and of coordinations such as order makes life enormously better, partly by stabilizing expectations and partly by elevating general welfare.

Pufendorf (Book 2, chap. 2, sec. 2) says that "the complaint of the masses about the burdens and drawbacks of civil states could be met in no better way than by picturing to their eyes the drawbacks of a state of nature." This claim fits the quasi-evolutionary account of the rise of states through their successes in survival as well as it fits the intentionalist contractarian creation of a state out of anarchy. Much of the force of contractarian argument often is in such statements, which do not in fact have a necessary connection to contractarian procedural justification but only to substantive, welfarist justification.

One might still think that ordinary people much of the time do follow quasi-contractarian norms in their interactions with each other even without iteration. Moral and political theorists typically want to go further and say something to the effect that the tacit agreement between a citizen and her government *obligates* the citizen to be obedient. That is, agreement is right making or right defining. This normative contractarian argument seems clearly wrong (Hardin 1990). Hume ([1748]) long ago demolished the descriptive supposition that government is in fact based on agreement. All that might be left is the Rousseauist, Kantian view that we are rationally bound to obey that which we would rationally (somehow defined) agree to. Call this view rationalist contractarianism. To make the view compelling, Rousseau, Kant, John Rawls (1971), and others virtually assume that anyone would agree to what it is a priori rational to agree to. This is a universal claim, and Rawls therefore need put only a single representative person behind the veil to choose the principles of justice (some contract). In rationalist contractarianism, therefore, the terms "contract" and "agreement" are otiose. All we really need to do is *discover* what is the universally right institution, principle, or whatever for government. We do not agree as we would in an exchange or an actual contract; rather, we agree more nearly as logicians or mathematicians would when they comprehend a demonstra-

tion. Much of the relevant theory must therefore be a definition of rightness.

The rationalist contractarian view is not related to common-sense cases of actual but tacit contracting. For example, a tipper on the highway far from home may treat the particular interaction as tacitly one of contractual agreement. This is not a rationalist or ideal claim, but a particular and actual claim. Some tippers might just be contractarian about the relevant interactions. Because they must commonly let social conventions determine the fair content of the contractual exchanges in which they tip, it would be wrong to say that their contractarian conclusions were rationalist or universal or a priori. Contractarianism in political theory cannot easily get started if it must first have a similarly strong social determination of its content.

7. Normative and explanatory theory

It is difficult to read much of contractarian theory without the impression that it is largely a normative, justificatory theory. Much of public goods theory similarly has a normative ring. A defining characteristic of the state is that it acts as a collective. Perhaps it tends to do many things that are collective, as resolving prisoner's dilemmas and supplying public goods typically are. But it might also do collectively what could be done much better individually. Worse still, it might do collectively what brings harm to virtually all its subjects. The economic theory is primarily a theory of capacities. Yet, economic theorizing about the state often runs normative and explanatory arguments together. We can derive some limited normative conclusions from the economic theories. The state makes the achievement of many collective provisions possible. It therefore makes the achievement of good possible, so that the state is an empirically necessary instrument for achieving much that is good. It is also an empirically necessary instrument for achieving some horrendous harms.

Note that Hobbes's theory is simultaneously explanatory and justificatory. States just happen by coordination. And they are good because they make us all potentially better off as compared to a state of anarchy (Cambodian experience under Pol Pot might make anarchy seem preferable, at least sometimes). To get this joint result, however, Hobbes had to make a normative commitment to welfare, perhaps crudely defined. Xenophon justified Cyrus's despotic rule with the claim that Cyrus's interests were identical with those of his subjects (Xenophon, 4th century B.C., VIII.1.4). Xenophon's argument is somewhat trivialized by his claim that what makes their interests common is that they have common enemies, whom they wish to defeat. Evidently, Cyrus's rule

would immediately have ceased to be just had he lived to see victory over those enemies. Despots have commonly held Xenophon's view of themselves, with a slight twist – that the people's interests are identical with the despot's. James Madison supposed that the best way to achieve good government was to design institutions to make it the case that the governors' interest is to do what is in the interest of the people. If this condition is genuinely met, we have a strong Hobbesian, welfarist justification for the state even though the particular state and governors we have may be merely one choice from among many possible choices that might be equally good.