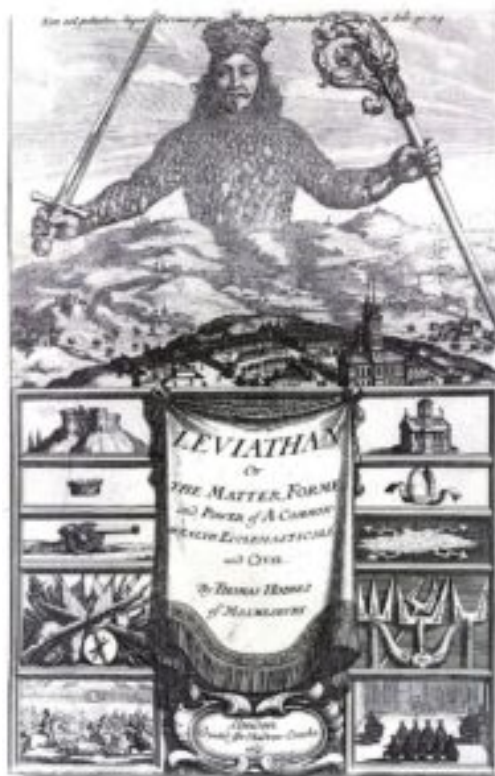


# Panarchy: The State 2.0

The dominant “Westphalian” model of the state, based on sovereignty over territory with borders and monopoly of violence over the people who happen to live in the territory, is obsolete. It fits seventeenth-century technology and pre-global societies when geographical distances could not be traversed easily and information took months to travel the globe. Instead, states may be founded on social contracts rather than sovereignty, service to citizens instead of monopoly over the use of violence in a territory. Panarchy, a political theory of non-territorial states founded on social contracts, [introduced in 1860](#) by Belgian botanist and economist Paul Émile de Puydt, offers an alternative. It proposes that citizens may literally sign a social contract, a constitution, with a state, and may change their states without moving, just as customers can change their insurance policies. Explicit and voluntary social contracts have several advantages over standard social contract theories: They are neither mythical nor hypothetical, but explicit and actual, voluntary and reversible.



*The Westphalian State epitomized in the famous book cover of Thomas Hobbes' "Leviathan"*

Panarchy allows political agents to make reversible political mistakes and then exit and join another state. In Panarchy, the incentive for political innovation and improvement comes from competition between states over citizens-customers. Politics would then develop its own version of creative destruction, when failed states disappear and are replaced by better managed ones, generating a general progressive trend.

### Why Are Non-Territorial States Better?

The current Westphalian international political system is based on regional territorial monopolies, [nation states](#). Each state (except for the [Knights of Malta](#) and governments in exile) has a monopoly over a territory and its inhabitants. Immigration possibilities and democracy decrease the monopoly power of the state and increase competition. But immigration is limited by territorial monopolies that cannot handle the increasing demand for their services. Democratic change of government does not increase the efficiency of the state. Modern nation-states face increases in demand for public services: Welfare, education, urban development, crime control, health service, and so on. Facing this increased demand, states behave as monopolies that cannot supply an increase in demand without an increase in marginal price (as expressed in many cases in higher taxes and debt). The modern nation state is stagnant and inefficient. It has too few competitors or substitutes that may either force it to find new solutions or supply the increase in demand themselves. Instead, some “live on credit,” borrow capital for operational costs.



*Free to Choose? A Barcelona Street Market. Image by [Dungodung](#) via [Wikimedia Commons](#)*

From the consumer's perspective, the degree of monopoly depends on individual mobility and choice: how easily can an unhappy citizen choose to migrate to a different state? The chances for migration from one territorial monopoly to another can be described as the degree of mobility in a political marketplace. Territorial monopolies that may come under increased demand under conditions of increased consumer mobility move to limit such mobility or elasticity in demand through immigration controls. For this reason states, oddly in comparison to firms, reject most of their prospective new customers. For a normal company that mass produces products, marginal customers are cheaper because of economies of scale. The more customers it has, the lower the price of their product can be, and the more competitive is the firm.

## Exit and Voice

A different intellectual route that leads to similar conclusions is through Albert Hirschman's exit and voice dichotomy. Albert O. Hirschman (1915-2012) in his short 1970 book *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States* offered a dichotomy of voice vs. exit: the less "voice" people have in their social unit, the more they try to exit it. Voice creates loyalty. This simple formula can be applied to explain the relations between individuals and social units, from marriage where the partner who has no voice may exit to citizenship where lack of voice in authoritarian societies leads to emigration. It also explains declines in memberships in civil organizations and firms that do not give voice to their members or customers. The emigrants who head first for the exits are also the ones who would have been most vociferous in pressing for reform. Authoritarian regimes which do not want to reform encourage exit. Yet, exit from all political associations in a world of territorial sovereign states is difficult and expensive even when possible. Only a small, often privileged, minority is able to exit. Voice, the ability to influence the management of the state, has a wide range of models within a democracy. As Hirschman analyzed, when the quality of service of an organization like a state deteriorates, managers are under pressure to improve it when faced with a massive exit of their customers. They can also attempt to dissuade exit by branding it "desertion, defection and treason," or in politics, secessionism. Alternatively, they may be forced to listen to the voice of the disgruntled customers. But if there is no exit option, or it is difficult or expensive, there is no incentive for managers to improve service or give voice (democracy) to their customers.

From this perspective, Panarchy is a radical facilitator of exit. The Exit-option is particularly

useful for victims of conflicts in places like the Middle East. Irrespective of how such conflicts begin, they are sustained by the absence of mass exit options. Panarchy gives everybody a credible exit option. If 18-year-olds had the choice to sign a social contract with several states, how many would choose exactly those states that are engaged in war and have conscription?

## Panarchy and Global Prosperity

Panarchy is highly likely to generate massive upper mobility for the global poor in the context of a high global rise in productivity and wealth creation. It would open the globe to an economically rational distribution of human resources. In Panarchy, people can move around the globe following opportunities, jobs, capital, and resources. Current customers of political territorial monopolies fear increased pressure on the limited production capabilities of nation-states (government services and welfare). This encourages xenophobia and racism to legitimize immigration limitations, even when this is clearly irrational for the receivers of government services, e.g. European pensioners who would benefit from young taxpaying workers, especially cheap immigrant nurses and other care personnel. Without borders, geography is disconnected from political affiliation. Rational economic agents will move geographically to maximize their returns, freedom, and opportunity. [The economic results](#) would create the kind of global economic productive boom that would [surpass that of globalization during the 19th century](#).

Current immigration restrictions unbalance the world economy. We live in a world where ideas travel to most places freely and instantly. The movement of capital across borders is nearly as free. The movement of goods, trade, is not nearly as free as that of ideas, but the trend, especially since the end of the Cold War, has been towards greater liberalization of trade. Yet, though human and labor movement has become both faster and cheaper than at any other historical period, political barriers to the movement of people and to their ability to work in multiple geographical locations that originated in the destructive and pathological era following the First World War and contributed to the Great Depression of the thirties are still in place. This creates global imbalances when people cannot chase capital and production where they are, though they know where the capital is and have a good idea about the benefits geographical movement may bestow on them. For example, capital flows often move from riskier to less risky, first world, political environments. But workers from countries that generate this capital flight cannot follow capital to where it is.

Vice versa, production shifts to areas with lower labor costs, often from the first to the third world. But first world workers cannot follow; American workers cannot go to work in Mexico. Barriers to human movement generate imbalances, unemployment, low returns on investment, and scarcity of qualified labor.

## Panarchy and Human Dignity

Immigration restrictions in the last hundred years participated in causing ethical catastrophes, most notably genocide, by trapping victims in territories they urgently needed to exit. For example, undoubtedly without immigration restrictions prior to the Second World War the scope of the Holocaust would have been far more limited. The current political international system of sovereign states is responsible for global poverty that could have been overcome had people been able to move according to their opportunities and interests. The misery of a great number of people who would have had happier, more decent, and more fulfilling lives had they been able to migrate to better places has political rather than economic reasons. The history of immigration to the United States indicates just how much innovation, economic progress, scientific discoveries and cultural contributions are prevented today by closed or insufficiently porous borders. Heroic, brave, and entrepreneurial individuals, a vanguard of economic rationality and prosperity, who attempt to cross borders to improve their lives and the lives of others, are prevented by borders from realizing their potential. Thousands of migrants who die every year of drowning, thirst and exposure crossing the Mediterranean in rickety boats or the deserts of Texas and Arizona in the United States, and the women who are trafficked into the first world to be sold as prostitutes [would have had more decent lives if they were not prevented by sovereign states from simply walking over and finding a job or starting a business.](#)

Apart of irrational tribal self-destructive xenophobia, one reason for politically blocking migration are fears that migrants may make demands on the welfare system that as a monopoly it could not supply, causing a decline in the quality of public services for all. Panarchy can eliminate such fears because geographical migrants are not political migrants. In a world without sovereignty, domicile does not affect access to welfare. States that are not territorial monopolies would react to increases in demand as commercial companies do, by expanding production and supply to maximize profits, or by creating franchises.

Development through Foreign Direct Investment in underdeveloped, poorer, parts of the

world is currently limited by insecurity and corruption. Had investors been able to secure their investments with their own security forces and legal and judicial institutions and frameworks, there would have been far more development and less poverty. Panarchy, a world of competing non-territorial states, would lift current sovereign barriers to development. Currently, pensioners from the north can move to warmer and more affordable global neighborhoods, but they cannot bring their state services with them, especially personal security and medical benefits. Non-territorial states may be able to offer such services globally.

Moral arguments against Panarchy are likely to resemble moral objections to conditions of free competition between private insurance companies in health care: Many believe that political services are essential. From the individual's point of view, the need for political, like medical, services is often sudden and unpredictable. Since the state should provide services that protect life, political services, like medical services, may be interpreted as a human right. Arguably, the level of political services, like medical services, should not depend on income.

If political services are a human right, territorial political monopolies hardly guarantee them. Just like medical insurance, political services are denied now to most of the human race. Most of the denizens of our planet have no medical insurance and no state that defends their interests. Most people reside in the territories of illiberal and undemocratic despotic states that do not care for their interests and exploit them. They are prevented by the international system of sovereign states from access to purchasing improved political services, available elsewhere. Supporters of "universal" health coverage usually mean national health coverage for citizens of advanced industrial states, excluding non-citizens, and only for services that do not cost too much. The current system of territorial political monopolies ensures neither universal distribution of political services, nor efficiency in their supply. Political monopolies are neither capable of nor have an interest in improving the quality of their services, nor reach optimal efficiency in the price and scope of their services.

Is it likely that class distinctions would replicate themselves on a political level in a panarchy, each class occupying its own state? Rich people will have an incentive to leave communities that have extensive redistribution systems, while prosperous communities are likely to turn away poorer applicants who wish to join them. These political behavior

patterns happen in the present system of sovereign states when rich people seek tax shelters and poorer folks are denied the right to immigrate to wealthy social democracies. But in a free political market, the rich actually have an interest in contracting the kind of states that also serve the poor, states that offer basic services and cost little. The rich do not need many services while the poor cannot afford them. Exclusive class based states for rich people will have security problems. A state with few rich citizens would be a juicy target for poorer states with much larger populations. To supply protection to its customers, such a state would have to rely on foreign mercenaries, an expensive and historically risky strategy because mercenaries can easily turn on their wealthier masters who are dependent on them, or sell their services to a higher bidder. It would be cheaper and much safer for rich folks to join a state with a wider customer base.



Image by [Catkin](#) via [Pixabay](#); ( [CC0](#) )

The poor cannot organize an advanced health service for themselves because they lack the capital and know-how. The poor have been able effectively to organize themselves politically to create militias and political parties. If no state is willing to serve the poor, the poor may found their own state, and there are plenty of historical precedents for political self-organization by poor and discriminated against communities. States can work on varying scales and capital investment levels.

Panarchy is highly likely to generate massive upper mobility for the global poor irrespective of their political associations because Panarchy is likely to have massively positive collateral effects on the world economy. The massive reduction in global poverty in the last generation following freer trade and globalization is just a harbinger of the kind of progress we could make with free movement. It may well be that as much as the poor can afford now for the first time not to be hungry and to have basic health care, [they will all be able to afford the](#)

[services of some state.](#)

## The Nation State as Technologically Obsolete

The rise of the nation state in the 19th century coincided with and was facilitated by several technological and business innovations: railways united national territories through transportation; the post office and the telegraph united the national territory through information transmission; universal basic education united the various dialects of national languages and allowed a unified national bureaucracy, education system, and newspapers. Today, airplanes are faster, cheaper and safer (if less convenient and glamorous) than trains and they created a global transportation system. Electronic communications have been replacing letters and have not just made the post office obsolete, but also unified the globe through the internet and satellite communications that are immediate and do not distinguish between the geographically distant to the proximate. English has become the universal language of science, the internet, and global television channels. For better or worse, apart of a thin global elite of polyglots, native English speakers tend to be monolingual, while everybody else speaks their mother tongue and learn English. The rise of global mega-cities and regions like the North East of the United States from Washington DC to Boston, Northern California, London, Paris, Berlin, and Hong Kong where many people with diverse origins, political identities and allegiances live and work together have made the nation-state obsolete in the sense that New York and London communicate with each other and are affected by each other far more than, say, London and Manchester or Belfast. People who live in megacities have more in common with each other than with rural compatriots. Consequently, territoriality, geographical location, can matter much less than at any other time in history as supply chains and commercial networks span the globe irrespective of geography. The non-territorial and global communities of inventors, entrepreneurs, and futurist visionaries, who are used to innovation and its implementation, naturally expand their horizons to the political realm and come up with innovative political ideas that come close to Panarchy.

Though technological and social prerequisites for Panarchy have been accumulating, they may not be sufficient. A hundred years ago the steam engine and the telegraph also facilitated globalization, but these inventions were followed by the most horrendous and murderous anti-global phase in human history that left global trade disrupted, parts of the globe isolated, and the worst territorial wars and destruction of human life in European



history with effects that lasted for at least seventy years. From a contemporary perspective, and I must add also from a nineteenth-century liberal or enlightenment perspective, the two world wars seem anachronistic and pointless since land matters little for prosperity and natural resources can be a curse for other sectors of the economy and for democracy. The fact that technological facilitators and prerequisites for Panarchy have accumulated does not imply that the potential *will* be actualized, only that it *can be* actualized.

## Panarchy and Information Technology

The growing capacity of the Internet to transmit information, and of computers to process it, reduce the cost and difficulties of running global states. Computers can fulfill some of the traditional functions of government to the extent that they coincide with the operations of credit card and insurance companies; they collect and distribute resources according to a contract. The latest innovations allow computers to enforce contracts through decentralized contracts and issue currency and set monetary policy through cryptocurrencies. [For example, Estonia has been at the forefront of the digitalization of government that allows it to be as exterritorial as the internet. Estonia offers anybody in the world the option of becoming an Estonian "e-resident."](#) In return for paying taxes to Estonia, its e-residents can register their companies there and execute contracts through e-signatures according to Estonian and EU laws and regulations. Estonia pioneered the digitalization of government whereby much of the interaction between citizens and the state is electronic and so can take place anywhere. Two innovations facilitate this process: e-signatures that are safer than ink on paper and electronic identity cards. Estonia, a country of little more than a million residents, expects to have a ten-fold e-residency. Whether or not ten million global citizens become virtual residents of Estonia is not as important as the ability through computerization to increase exponentially the number of citizens without increasing significantly the number of government employees.

Public services and relations that involve funds and information can be transmitted and exchanged electronically; other services can be ordered locally via the internet, like concierge services offered by major credit cards. Health and education could be supplied locally by contractors, but more significantly and controversially, so could security. The last couple of decades have witnessed a rise of private security companies and the historical return of mercenary armies. Corporations and NGOs like *World Vision* and *Save the Children* hire security firms to protect their employees. Such security companies can have

the same corporate structure as that of any services company with local branches; they can become embryonic states.

The rise of virtual social networks like Facebook, LinkedIn, Academia.edu and so on, [has led Silicon Valley academic and venture capitalist Balaji Srinivasan to suggest that political communities are losing their geographical characteristics and migrating to “the cloud,” to storage in computer servers spread all over the globe without any particular geographic location, just like states can be.](#) The relevant distance between people is not geographical anymore, but geodesic, the shortest social line on a social network between people. Cloud formations can lead later to geographical face to face proximity. “Emigrants would be moving within or between nation states to become part of a community, not to strike out on their own... Unlike so-called secessionists, the specific site of physical concentration would be a matter of convenience, not passion; the geography incidental and not worth fighting over. Today, one of the first and largest international reverse diasporas has assembled in Silicon Valley, drawn by the internet to the cloud capital of technology; in fact, an incredible 64% of the Valley’s scientists and engineers hail from outside the U.S., with 43.9% of its technology companies founded by emigrants.”



Image by [LuxTonnerre](#) via [Flickr](#) (CC-by-SA-2.0)

Srinivasan outlined the political implications of the new technologies: “as cloud formations

take physical shape at steadily greater scales and durations, it shall become ever more feasible to create a new nation of emigrants.” Srinivasan approached the idea of de-territorializing the state but did not quite cross the threshold. [Seasteading](#), the creation of floating towns off the territorial waters of California, is a recent attempt to create new states with freer entry and exit. If creative political entrepreneurs could not find a territory on earth, they could move to the sea and prosper there, away from any sovereign limits on immigration, labor and trade. However, in addition to technical material issues, such communities would be territorial rather than global. Without a military, they would be easy targets for nation states who could occupy them merely by blocking the shipping lanes that would be their lifeline. The cause of such action can be anything from drug-trafficking to alleged tax evasion. Panarchy offers all the benefits of such new states, without having to move anywhere, let alone to the sea or to Mars, ideas that even if technologically feasible and affordable only reiterate the old model of the sovereign territorial state, instead of creating a new and improved model of the state - the state 2.0.

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