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DEFENSE AS A PRIVATE GOOD IN A COMPETITIVE ORDER



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Abstract

In this paper, I attempt to provide a comprehensive demonstration that, contrary to popular opinion, there is nothing inherent in defense that makes it belong to the category of common goods, thus indicating that its effective provision does not require the existence of a territorial monopoly of force, and could be satisfactorily delivered in a purely market-based system. The above analysis implies that within a contractual, competitive, and purely voluntary social order this task could be accomplished even with respect to protection goods that affect wide geographical areas, while avoiding the problem of agency infighting.

Key words: market for protection; common goods; polycentrism; non-excludability; private security; entrepreneurship

JEL classifications: B53, H41, P16

INTRODUCTION

Probably the most popular argument delineating an ostensibly beneficial function performed by a monopoly of force – i.e., the state – refers to its claimed ability to supply society with certain essential, otherwise unattainable classes of goods. One such class consists of the so-called common goods – i.e., goods that produce positive externalities, which enable non-payers to benefit from their use without in any way contributing to their production.

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It is often claimed that since in the case of common goods the social gains, including the gains of free riders, outweigh the private gains of the producers, the incentive to produce them by private, profit-driven entrepreneurs is significantly undermined. Thus, a monopoly of force is expected to intervene and coerce every able member of society to contribute financially in order to secure a sufficient supply of the goods in question. Absent such a monopoly, the argument goes, their supply is bound to be sub-optimal (see, e.g., Willis 2002, pp. 161-3; Arnold 2004, pp. 720-3; Ayers and Collinge 2004, pp. 555-9).

The example of a common good that is most often used in the relevant literature is that of defense, particularly large-scale national defense. In this paper, however, I shall argue that, in fact, there is nothing inherent in defense that makes it belong to the category of common goods, that in this respect it is no different from other goods and services normally supplied by the market. Consequently, in view of the generally acknowledged superior allocative properties of the market (Hayek 1945, 1948; Rothbard 1956; Smith 1975; Mises 1990, 1996; Say 2001), freely competing protection agencies would provide this good at a much higher level of quality than a monopoly of force does, thus putting in doubt the rationale for the latter's very existence. In other words, the present paper aims to show that defense can be supplied in a private, voluntary, decentralized fashion, with all the economic advantages typical of such an arrangement, and without all the economic disadvantages characteristic of its coercively monopolistic counterpart. More specifically, it aims at building on the earlier literature on the subject, and making its analysis more detailed, precise, and exhaustive, thus offering its most up-to-date elaboration. In addition, it provides a concrete illustration of my more general critique of the notion of common goods (Wisniewski 2013).

SHORT-RANGE PROTECTION GOODS

How might private, voluntary, decentralized protective arrangements look like?

Let me start commenting on this issue by emphasizing the fact that protective services cannot be treated as a homogeneous lump, and that their different categories should be thought of as facing different facets of the ostensible problem posed by non-excludability. I shall analyze these distinct categories in turn.

To be sure, there appears to be no relevant difficulty in the context of providing protective services designed so as to be restricted to specific households. A specific individual (or group of individuals) contracting with a private firm for protecting his life and property does not seem to generate any noticeable spillover effects.¹ At most, one might argue that when a given household is closely surrounded by other households (as in an apartment building or a row of terraced houses), some of the inhabitants of the latter could conceivably risk not buying the services of any protection agency in the hope that, if targeted by criminals, they could count on their neighbors sending their contracted protectors to their rescue. Such a claim might seem plausible insofar as it does not presuppose any angelic benevolence on the part of the free riders' neighbors, but only a mundane, self-interested concern for keeping one's surroundings free of dangerous incidents (both for reasons of personal comfort and residential prestige). In fact, it appears quite intuitive to expect that most people would call upon their protection agencies if they noticed that something unsavory is happening in their neighbor's house.

¹ Other than perhaps the effects stemming from the fact that his personal security benefits all those eager to interact with him, be it on a commercial or on a social level. However, in this sense everybody benefits from the existence of everybody else, and it would be extremely implausible to argue that this might make individuals in general unwilling to interact with others until the latter pay for their security expenses. In fact, this would logically lead to paralyzing all human interaction.

However, it is equally intuitive to expect that one is not going to undertake the risk of depending solely on one's neighbor's immediate interventions. Anticipatory free riding of the kind just described differs sharply from that of the kind usually discussed by common goods theorists. In the latter case the free rider can be properly characterized as hiding behind her neighbor's back. But in the former case it is the neighbor who stands behind the so-called free rider's back, while the free rider hopes that he is going to attack her possible oppressors from this backline position. Or, to rely on another, more institutionally-oriented example: the latter case corresponds to the situation of a welfare recipient, who can be said to free ride on the work of the employed, whereas the former case corresponds to the situation of a resident of a country with no welfare system who quits his job and enters self-imposed poverty in the hope that his actions are going to prompt the establishment of such a system. To be sure, the former is a widespread, theoretically explained (e.g., Mises 1951, pp. 475-8; Hoppe 1989, ch. 4) and empirically recorded (e.g., Niskanen 1996, Bradley and Rector 2010) phenomenon, but the analysis of and evidence for the latter is lacking. Hence, I believe there are sufficient reasons for dismissing the putative spillover effects of the kind mentioned above as non-existent.

MID-RANGE PROTECTION GOODS

Let us now turn to the possibly more challenging issue of effective private provision of what might be called mid-range protection goods and services – i.e., street patrols and surveillance cameras in public use areas. Here, it could be claimed, the free rider problem becomes much more pronounced, up to the point of actually threatening the profitability of supplying such amenities. After all, extending the ambit of protection to the area which one neither inhabits permanently, nor uses to store one's property might be said to generate a kind of bonus – something highly convenient, but not always necessary. By the same token,

however, this bonus becomes easily exploitable by free riders. It should also be added that in such contexts the most potentially pernicious group of free riders is likely to consist not of “outsiders”, i.e., individuals external to the community, who never thought of contributing to its defense, and thus just happen to enjoy a free privilege as they pass through it, but of “insiders”, i.e., people who have a self-interest in keeping their community safe, but may nonetheless decide to risk shirking their unwritten social duties and consequently burden their neighbors with the entire cost of fulfilling them. No further comments are needed to realize that such an arrangement can plausibly result in a classic “tragedy of the commons” (Hardin 1968). Let us consider in turn a few proposals on how to prevent it from happening.

One way of internalizing the relevant externalities could consist in the use of restrictive covenants. As Block (1983, p. 13) puts it: “people could simply refuse to sell their homes (or rent their apartments) to those who would not agree, and also hold all future owners to agree, to a contract calling for payments to a defense company”. However, it might be argued that this approach in a sense already presupposes the solution to the problem that it aims to address, thus only pushing it one level up. In other words, it could be said that this proposal assumes that a given community was created either by a single developer who entered a contract with a private protection agency and hence is in a position to oblige every newcomer in the community to honor this contract, or that it was started by a group of individuals who concurred in advance with regard to their attitude towards communal safety and obliged one another (as well as any prospective subsequent owners of their houses) to enter individual contracts with a given protection agency (or agencies). And yet, it is certainly conceivable that the original founders of a given community may fail to solve this kind of coordination problem, which might result in some of them trying to free ride on the defense services bought by others. In such cases the idea of establishing restrictive covenants seems hardly realizable. In sum, while by no means without merit, the

proposal in question could be reasonably criticized by a supporter of the monocentric-coercive solution as likely to be applicable in fewer cases than his own alternative. Let us then move to other pertinent suggestions, complementary to the one just described.

It might be argued that the reason why protection services such as street patrols are seen as non-excludable in the first place is because they operate in non-excludable areas. If roads and pavements were private, the problem would disappear, since private property is exclusive.² However, the crucial question to ask in this context is: would road owners be willing to contract with protection agencies? On the one hand, it would seem that it would be in the interest of every road owner to make his property as safe as possible, since otherwise he might lose customers to his competitors. But on the other hand, it seems possible that unlike the regular residents and users of the buildings on a given road, casual passersby (especially those not on foot) may be more willing to accept the risk of relying exclusively on self-defense than to pay regular contributions for the maintenance of professional protection services in the areas which they visit only occasionally. After all, it appears to me that most people would find it less problematic to have to occasionally walk (let alone drive) through a dodgy neighborhood or a dark park than to co-finance patrols in such areas on a permanent basis. Hence, paradoxical as it may seem at first glance, the road owners who would offer only minimal or no protection to their customers might possibly be able to undersell those whose offers are more comprehensive in this respect. Consequently, in order to supply themselves with the requisite level of professional protection, the permanent residents of any given area would have to shoulder the

² There are, of course, many common doubts about the viability of full-scale road and highway privatization, associated with, among other things, the ostensible problem of effective fee collection, or the danger of being “imprisoned” by hostile road owners. I do not think that any of these doubts are ultimately justified, but is it beyond the scope of this text to investigate them and propose corresponding solutions. For perhaps the most comprehensive treatment of these issues, see Block (2009).

entire burden of financing appropriate services. This, in turn, may well make the free rider problem return with a vengeance.

In fact, even in isolated communities with no thoroughfares, whose roads are likely to be used by their permanent residents only, an infrastructure provider who would not require its users to pay for its protection could attempt to undersell those of his competitors who would have such a requirement. Consequently, if his offer managed to initially attract at least a few potential free riders, the per capita cost of the alternative, bundled offer (infrastructure plus protection) would immediately go up, possibly triggering a snowball effect whose result would be the conversion of ever more members of the community to the free rider attitude.³ Since exclusion appears *prima facie* much easier in the case of infrastructure services than in the case of protection services, the abovementioned business strategy should not be considered untenable.

At this point, it is worthwhile to notice that there exists a “thinner” way in which the owners of roads might cooperate with protection agencies – not in the sense of requiring their customers to pay an additional premium for defense provision, but in the sense of legally allowing the employees of protection agencies to do either or both of the following: 1) randomly stop the users of a given road, check whether they are insured with any protection

³ For a related argument, see Roy Childs' (1977, p. 31) criticisms of Robert Nozick's (1974) conception of the minimal state. According to Nozick, the minimal state differs from the ultraminimal state insofar as it not only forcibly excludes all competition in the area of defense provision, but also extends its services to those who explicitly refuse to be its clients, and to that extent relies on redistributive taxation. Hence, it essentially allows its non-clients to free ride on the services that its clients pay for. This, Childs contends, is bound to lead to more and more people turning from the minimal state's clients into free riders, ultimately leading to the inevitable bankruptcy of the institution in question. Even though the Nozickian minimal state differs from the protection agencies in my examples insofar as it is not only susceptible to free riding, but actually encourages it, I think that the parallel between the two cases is still strong and visible.

agency, and collect fines from those found to be free riders 2) collect fines from those found to be free riders after being rescued from criminal situations on the road. However, as promising as these thinner exclusionary methods may seem, one could again argue that they would be effective only to the extent that those using them would not be undersold by their competitors who would promise their customers not to burden them with such inconveniences.

Perhaps the last thing to be mentioned in this context is that since private patrols would be a positive externality for the road owners, the latter would be very unlikely to charge the patrollers for using their roads. By the same token, protection agencies might threaten to leave a given area if the local road owners do not start cooperating with them – i.e., require their clients to pay a defense premium. As we noted earlier, such a threat should not necessarily bother the owners of thoroughfares. It would probably be more effective with regard to pressuring the owners of roads in isolated, mostly residential communities. However, it appears that even in those cases road owners would ultimately retain a greater bargaining power than protection agencies. After all, by refusing to operate in a given area, a protection agency effectively removes itself from the local market for defense services, which need not prevent the local infrastructure provider from sustaining his business. This is because in a modern economy one can hardly live without modern transport infrastructure, but one can live without patrolled transport infrastructure. Thus, it seems likely that even in the abovementioned cases the protection agency would be unable to “threaten” the road owner(s) into cooperation and would have to continue operating in its local area without being able to utilize the excludable character of road infrastructure to counter the pernicious influence of free riders.

In sum, the set of solutions based on road privatization, while arguably capable of alleviating or even eliminating the free rider problem under certain favorable conditions, nevertheless does