

DEFENSE AS A PRIVATE GOOD IN A COMPETITIVE ORDER



Jakub Bożydar Wiśniewski*

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.

* Jakub Bożydar Wiśniewski is a Ph.D. candidate in political economy at King's College, London. E-mail: jakub@cantab.net

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

not seem to be specifically relevant to the worry in question. In other words, rather than solving it, the abovementioned proposals seem to merely shift it to a different, not necessarily more comfortable level. In the case under discussion, they only serve to make us realize that the mentality of road owners vis-à-vis free riding need not be in any appropriate sense different from that of individual inhabitants of any given community. Let us then move to discussing an altogether different set of solutions.

Obviously, it is not only in the interest of the “honest” members of the community to deal effectively with free riders. It is equally in the interest of the protection agency serving the former, since too much free riding may ultimately cause even its existing customers to give up on paying for protection. Hence, let us for a moment shift our attention from the exclusionary actions and methods that could be undertaken by the members of the community (or by those who provide it with apparently more easily excludable communal services) to those that might be utilized by their protection agencies.

One of such methods might be for “the defense company (...) [to] announce that those who had not paid for service would [not] be protected by its personnel” (Block 1983, p. 13). The information contained in this announcement might seem self-evident, but one should not underestimate the psychological effects that such reminders of the obvious might have on the attitude of free riders. After all, in such cases the stake is their health or even life. Thus, I think it is fair to say that these kinds of situations are qualitatively different from those involving other, perhaps more familiar examples of free riding, such as overgrazing a common meadow or waiting for one’s neighbors to renovate the façade of one’s apartment building. In the scenario under consideration, what the free rider stands to lose is the precondition of pursuing any further goals, including those which might possibly be attained by means of free riding.

Let us now list the alternatives facing him and his neighbors⁴, as well as their likely outcomes: 1) If from the very start neither he nor his neighbors pay for defense services, it indicates that none of them are interested in protection – the initial situation in which they are all free riders seems impossible, since one is unlikely to become a free rider unless he realizes the existence of some attractive externalities to exploit in the first place. 2) If he does not pay but his neighbors do, then his fate remains very precarious as long as this practice continues. After all, his neighbors, dismayed by the existing situation, might decide to change the nature of their protection contracts – e.g., restrict the protected area to their households or travel in the company of personal bodyguards instead of having them patrol the streets – or leave the community altogether. Our free rider has to weigh the benefit of (at least temporarily) living in a surrounding made safe by someone else against the danger of being suddenly left on one's own in a very dangerous territory. Since we are treading the waters of psychology here, there of course exists no logically watertight proof that any given potential free rider is always going to conclude that such transitory gains are unworthy of pursuing given the attendant risks, but I believe this is what follows from the commonsense perspective of psychological probability.

A parallel argument can be deployed to illustrate the excludability of another supposedly common good – lighthouses. Free riding on the service provided by a lighthouse always puts a non-paying ship owner at the risk that at any moment he can be suddenly left in utter darkness, thus facing the prospect of either a deadly crash or desperate calling for help (Block and Barnett II

⁴ To be more accurate, by 'neighbors' I mean 'at least some of his neighbors' – after all, the proportions between the payers and the non-paying free riders within any given community may vary. For the sake of simplification, in my scenario the latter group is identified with its single representative.

2009, p. 3), both alternatives being clearly more costly than contributing one's share to the upkeep of the lighthouse.⁵

In sum, the payoff matrix informally sketched above suggests that for every reasonably prudent, rationally self-interested person option 2) is worse than option 3), where he pays, but his neighbors do not, since in the latter scenario it is his neighbors who stand to gain less from free riding than they stand to lose from being unexpectedly and completely deprived of protection, whereas his own safety is pretty much guaranteed. Furthermore, if, in view of the preceding arguments, we assume that a reasonably prudent, rationally self-interested person is much more likely to be a payer than a free rider, a community composed of such people, whose individual choices would be option 3), would collectively (and spontaneously) implement option 4), where everybody pays and hence the phenomenon of free riding is non-existent.

Furthermore, it is worthwhile to notice in this context that shirking payments to one's private protection agency is in every relevant respect similar in consequences to shirking payments to a monopoly of force – in the former case one risks being denied defense services and being left at the mercy of criminals, while in the latter case one risks being legally expropriated and imprisoned. In both cases there are possibilities to free ride, and associated dangers. And yet, it is not the case that the monopolies of force we all know to exist show any signs of imminent collapse under the burden of free riding. Why should it then be any

⁵ Coase (1974) suggests that in the period from the mid 16th to the late 19th century lighthouse services in Britain were provided on a voluntary, market basis, which might lead one to think that the self-enforcing incentive mechanism just described was at work there. However, Van Zandt (1993) and Bertrand (2006) doubt whether the underlying arrangements could be properly described as voluntary. Block and Barnett II (2009) side with these authors against Coase, but remind their readers that, as in every case of governmental preemption, these observations need not indicate that genuine free market arrangements would not usher in effective provision of the services under consideration.

different with private defense companies? In fact, since private defense companies could not, unlike the monopolies of force, externalize the costs of compensating for the actions of free riders onto their paying customers without discouraging the latter's support (Hoppe 1999, pp. 29, 42), they would naturally have a much greater incentive to identify free riders, and desist from providing them with their services as quickly as possible.

Given today's advanced technology, this appears by no means an insurmountable task. For example, the clients of any given protection agency could be equipped with small, portable sensors. This way, whenever a patrol car would notice that someone is assaulted on the street, its crew could immediately determine whether the victim emits an appropriate signal, hence, whether she qualifies to receive their help. At this point, the *ex post* method of actually refusing defense services to free riders in need, complementary to the *ex ante* method of announcing in advance that this is precisely how non-payers are going to be treated, comes into play. In fact, it seems plausible that the "shock value" of the former method would far exceed that of the latter – free riders would likely be much better disciplined by learning that one of their ilk was mugged in broad daylight just as a private police car happened to pass by, than by simply being notified that this is the kind of danger they face as long as they refuse to contribute. Of course, any given defense company may occasionally come to the rescue of a free rider in order to show good will and add a charitable twist to its reputation, but obviously none of them can afford doing this too often, since, as was mentioned before, it is in their interest to leave non-payers in the state of permanent precariousness, thus providing them with a definite incentive to start contributing.

Moreover, it has to be noticed that the paying clients of any given protection agency have a strong incentive to help their defenders identify free riders, and subsequently ostracize them in order to (peacefully) force them to either leave the community or

start paying their premiums (Ostrom 1990). Such ostracism could take the form of, for instance, refusing to enter any business transactions with them, including the sale of food, clothing, electricity, and other basic amenities. It appears plausible to conclude that faced with the prospects of becoming virtual hermits and living in the state of primitive autarky, most free riders would join the ranks of honest payers. We should note here that to the extent the majority of people in any given territory genuinely desire having their communal space professionally protected, they are going to consider the payoff from not ostracizing free riders smaller than the payoff from refusing to do any business with them and thus non-violently persuading them to start paying protection premiums. Hence, in the context under consideration, there should not be any collective action problems associated with organizing a unanimous and persistent boycott of the offending individuals (Benson 1993; Greif, Milgrom and Weingast 1994; Stringham 2003).

What is more, in a polycentric, competitive environment, the payers are likely to be much more eager to engage in such actions than they would be under a monopoly of force, since in the former scenario it is clear that free riders are cheaters who attempt to benefit at the expense of others. On the other hand, their “counterparts” from the latter scenario, i.e., tax resisters, only strive to keep what they consider to be their rightful property, without by the same token trying to parasitize on the contributions of others, since they do not regard the services provided by such contributions as goods in the first place. Consequently, taxpayers often feel sympathy for them and, far from entertaining the thought of subjecting them to ostracism, they actually get inspired to emulate their actions (Adams 1998, p. 190; Ackerman and Duvall 2000, pp. 61, 75, 94-5).

One can sometimes encounter claims that it is not just protection that is supposedly non-excludable, but also the

associated positive phenomena of deterrence and incarceration of criminals. Here is a typical comment to that effect:

[A]n important part of the service provided by public police and systems of criminal justice generally is to deter potential violators from harming people. And this deterrence is an indivisible nonexcludable good to neighbors and visitors. (...) In addition to deterrence, there may be the benefits that follow from incarceration of the thief – namely, incapacitation – benefits that are also indivisible and nonexcludable. (Morris 1998, pp. 60-1)

It seems to me that such assertions can be countered on grounds of both pure logic and commonsense psychology.

If one refrains from paying for a given good or service and shows no other signs of being interested in it, no sound economic argument can be made for the claim that he in fact benefits from its provision, and thus should be penalized as a free rider. Consequently, if one refuses to contribute voluntarily to the upkeep of a monopoly of force, whose actions can be deemed to generate benefits stemming from deterring and incarcerating criminals, then, logically speaking, the coerced contributor is the last person to whom the said benefits could be imputed.

Furthermore, the commonsensical understanding of the motives that impel people to safeguard their security suggests that there is nothing indivisible or non-excludable about the goods just mentioned. For instance, the fact that people possess and carry around private arms might be considered to provide precisely the same kind of deterrent effect as the one supplied by “public police”. It seems scarcely plausible to assume that such individuals think along the lines of: why should I buy a gun and thus scare away criminals from the area where I live if I can wait for my neighbor to do the same thing? On the contrary, they are often so eager to provide themselves with private, personal protection that the monopolies of force wishing to disarm them

resort to introducing all sorts of regulations on the use of and access to guns.

Likewise, describing the benefits flowing from incarcerating criminals as non-excludable implausibly assumes that one's willingness to free ride on the atmosphere of safety created by the contributions of others is stronger than one's fear that, in the absence of appropriate penal institutions, free roaming criminals are likely enough to target him (which is an observation very similar in its structure and character to that made in the context of the provision of lighthouse services).

In sum, the logical insights concerning the notion of demonstrated preference, as well as the considerations of what is psychologically plausible, seem as effective in countering the claim that deterrence and incarceration of criminals are common goods as they are in answering the contention that protection per se belongs to the same category.

LONG-RANGE PROTECTION GOODS

Let us now move to the possibly most challenging facet of the topic under discussion: the provision of what might be called long-range or large-scale protection goods and services, such as anti-ballistic missiles and deterrent nuclear weapons. Here, it would seem, the free rider problem could assume potentially insurmountable proportions. And yet, I believe there are good reasons to regard this particular context as not qualitatively or even quantitatively more difficult to handle than the ones already tackled earlier. Let me discuss these reasons in turn.

For a start, let us recall briefly the set of standard arguments advanced by the authors working within the tradition of classical liberalism in favor of the polycentric, competitive, free enterprise system of economic organization: 1) the incentive argument (Smith 1976) (the profit motive promotes effectiveness, competition brings down prices and enhances quality) 2) the

voluntariness argument (Say 2001) (voluntary transactions, as opposed to the coercive ones, never injure the productive forces aimed at satisfying the demand of customers) 3) the calculation argument (Mises 1990; 1996, part 3) (without private property rights in factors of production cost-accounting and hence rational allocation of resources becomes impossible) 4) the knowledge argument (Hayek 1945, 1948) (only a decentralized system consisting of a multitude of independent decision-making units can make use of the relevant knowledge associated with specific circumstances of time and place), and 5) the capital accumulation argument (Böhm-Bawerk 1890) (when private property rights are secure, people have an incentive to save more, which allows for funding capital investments and more roundabout processes of production, resulting in higher productivity). A sole classical liberal, Gustave de Molinari (1977), consistently insisted that these arguments are just as applicable to the area of defense provision as they are to the production of any other good or service.

Thus, even if, in accordance with the principle of charity, we grant the supervisors of any given monopoly of force perfect motivations, perfect knowledge and sufficiently low time preference (hence immunizing them against points 1, 4 and 5 from the above list), the remaining points tip the balance of quality in favor of the voluntary, decentralized alternative. This has significant further consequences.

First, the system envisioned by classical liberals can be plausibly predicted to be, other things being equal, much more peaceful and economically prosperous than its monocentric, coercive counterpart. Its peacefulness can be inferred to stem from the fact that interpersonal interactions taking place within it employ primarily economic rather than political means (Oppenheimer 1922). This is because such a system minimizes the opportunities to externalize the costs of one's aggressive behavior onto others, and perpetuates in its participants the awareness that peace is a necessary precondition of frugality, mutual trust,

confidence in investing, eagerness for continued hard work, and other psychological traits characteristic of the members of well-off societies. Its prosperity, on the other hand, derives from the fact that the traits just mentioned can be successfully utilized in the institutional framework, allowing for capital accumulation, cost accounting, unobstructed decision making, and quick transmission of relevant information.

Consequently, a territory whose inhabitants are animated by classical liberal principles is unlikely to pose a military threat to neighboring areas, but it is likely to be a very lucrative trade partner for them. To elaborate on the latter point, even though military conquest can gain one land and slave labor force, such acquisitions are arguably much less valuable than opportunities to exchange goods, services and ideas with representatives of highly developed civilizations. In sum, the characteristics of polycentric, competitive, free enterprise systems appear to make them very unlikely targets for war. Countries such as Switzerland and Liechtenstein, which may serve as plausible real-world approximations of the ideal type just described, seem to provide cogent historical and contemporary illustrations for these contentions.

One might object that not all wars, including the most expansive, total and cruel ones, are motivated by the kind of economic rationality and cost-benefit calculations appealed to above. On the contrary, it could be argued that the most atrocious conflicts in human history were ideological in nature, spurred by forces such as nationalism, racism, and class envy. In view of this, might it not be convincingly suggested that an ideologically fundamentalist dictatorship rich with natural resources would attempt to launch an all-out suicide attack against an enclave of free market libertarianism?

It seems fair to agree that this is in fact a genuine possibility. However, it need not be thought of as particularly problematic, since for reasons enumerated in the preceding paragraphs, the society in question is likely to be exceptionally efficient also in the

area of self-defense (Tannehill and Tannehill 1970, pp. 129-31). The presence of a complex and extensive capital structure, entrepreneurial innovations, incentives to industriousness and diligence, means of rapidly coordinating decentralized decisions and appraising their costs and benefits – all these features of competitive, free-enterprise-based communities can be plausibly argued to make their protective arsenal much more effective than the offensive arsenal of ideologically driven, militant collectivist dictatorships.

One might reply by suggesting that I am begging the question, insofar as I am assuming that entrepreneurs in the communities under discussion can accumulate sufficient monetary resources to build and maintain the sort of enormously costly devices that are usually financed out of coercive levies extracted from the vast majority of individuals employed in the private sector of a given economy. Is it reasonable to conclude that the clientele of such entrepreneurs can be equal in size to the group of non-voluntary contributors who provide for the expenses in question under monopolies of force? In other words, am I not presupposing rather than proving that the free rider problem can be effectively solved under the conditions I envisage?

I believe that there is at least one good reason why the above should not be thought of as an unargued presupposition. Just as in the case of “smaller-scale” or “shorter-range” protection goods and services, I think that the amenities constitutive of what is known today as “national defense” could be provided efficiently under polycentric, voluntary arrangements primarily thanks to the dual forces of positive and negative promotion.

By negative promotion I of course mean ostracism. How would it work in the context at hand? First, we need to realize that probably the most natural way of supplying the goods and services under consideration would effectively consist in bundling them with their small scale, more easily excludable counterparts (Long 1994), such as localized patrols and surveillance cameras. Furthermore, it is likely that in order to raise sufficient funds, the

relevant companies would pool some of their earnings to finance the most costly elements of the overall defense structure, and consequently profit from their operation (as well as be responsible for their maintenance) in proportion to their individual contributions. Alternatively, no pooling might take place, and cost-reducing cooperation between protection agencies might result from a simple overlap of profit opportunities on the defense market: if a given protection agency were to announce that it is going to bundle its more “local” services with the production of bombers, it would be an immediate profit signal for another agency of a similar sort that it is worthwhile to start building specially designed airports.

At this point one might immediately raise the objection that those protection agencies that would restrict their services to the local level could attempt to undersell those that would make their offer a bundle of short-range and long-range amenities. This is where the use of ostracism comes into play. It seems probable that companies of the former kind could find themselves a sufficiently sizeable niche to be able to operate profitably and survive in the longer term, but it is questionable whether that would be an optimal business policy for them to pursue, since, insofar as the majority in a given society wishes to have a properly functioning national defense, such a niche would be heavily ostracized. In other words, the clients of “local-only” agencies would likely be cut off from all kinds of social and business relations with other members of their community, condemning themselves to living either in the state of primitive self-sufficiency, or in a ghetto of inveterate non-contributors. Likewise, not wishing to join the ranks of such pariahs, individual buyers of protection services should have an incentive to ostracize the local-only agencies and hence successively push them out of the market. The same incentive would plausibly apply to the companies offering bundled protection goods, inasmuch as that they would refuse to have any reciprocal, mutually beneficial agreements with their free-riding counterparts.

Of course, it should be added in this context that the method of ostracism is effective only insofar as those worthy of social disapprobation can be sufficiently easily identified. This, however, should not be thought of as much of a problem. If we assume that contributors to national defense would normally display some kind of sufficiently complex, non-counterfeitable signs (issued, presumably, by “full-blooded” protection agencies or their associations) on their houses or cars, indicating that they paid their share of the common costs, it follows that in such an environment it would be very easy to identify non-contributors. Moreover, low contribution rates within a given area would likely signal to others that local “human capital” is not of a particularly high quality, which would result in bringing down local property values, and further discourage any outside entrepreneurs from interacting with the inhabitants of the area in question, expanding their businesses to it, etc. Hence, widespread free riding, instead of increasing the personal wealth of the members of a recalcitrant community, would probably lead to it becoming an impoverished ghetto, voluntarily cut off from all the benefits associated with the division of labor, capital accumulation, and the spirit of entrepreneurship.

Positive promotion, on the other hand, could consist in, for instance, the producers of various straightforwardly excludable goods voluntarily contributing to the production of supposedly non-excludable, long-range protection goods in order to build their market reputation as maximally consumer-friendly, acquire an image of public-mindedness, etc. This, of course, would be more than likely to substantially increase their revenue, as well as create a recognizable and trustworthy brand, capable of overcoming the supposed “market failure” of asymmetric information between buyers and sellers (Akerlof 1970). A natural corollary of the development of such brands would be the emergence of informal ‘grapevine’ knowledge among satisfied customers, and the tendency to pass it on to ever-wider circles of

new potential clients (DiLorenzo 2011). Alerting the public to the fact that producers in question participate in funding national defense would most probably be communicated through advertisements. The same means of disseminating reliable market information could also be used to denounce free riders and their patrons. Again, one might claim that such outlets could equally well generate fraudulent accusations, but the constant counterargument here is that any company that would engage in such a practice would by the same token become untrustworthy with respect to promoting its own products, hence magnifying the problem of asymmetric information, and consequently damaging its own revenue.

Another method of positive promotion of one's company and its products that could be utilized by the agencies offering bundled protection goods could consist in offering various free extra services to their clients, services such as lessons in the use of personal weapons; these lessons, upon completion, might entitle the successful trainees to lower personal and property insurance premiums. Finally, since the other side of the free rider problem (attempting to benefit without contributing) is the so-called *assurance problem* (the uncertainty of whether free riding will not prevent accumulating sufficient funds to complete a given enterprise in the first place, hence making one's contribution to it a waste of money), one other important aspect of enticing customers to patronize only the companies contributing to national defense could be to offer guarantees to refund one's premiums if funds sufficient to create and maintain the necessary capital are not collected (Schmidtz 1991).

Let us conclude the present paper by discussing the question of whether the social model just described would suffer from private protection agency infighting. To put it briefly, the issue is as follows: if various individuals contract for defense with different, profit-seeking companies, what should prevent the companies under consideration from overstepping their proper

function, and attempting to increase their revenue through initiatory violence directed against their competitors and clients thereof (Rand 1967, p. 335)? If this is a plausible scenario, then would not its logical culmination be the dreaded Hobbesian war of everyone against everyone (Hobbes 1991, p. 88), a condition thoroughly uncondusive not only to the existence of efficient national defense, but also to personal safety in even the most local sense?

There are, in fact, a number of reasons to resist the above train of thought. First, it should be borne in mind that in a competitive market for defense provision, unlike under a monopoly of force, no provider could externalize the costs of its aggressive actions onto non-clients. To be more specific, there is, of course, no logical impossibility in any given provider trying to do so, but under a system characterized by a widespread opposition to such practices, their occurrence would be met with immediate ostracism – both “active” and “passive” – of their perpetrators. By “passive” ostracism, I refer to the fact that, out of fear of being identified with violence mongers, the hitherto customers of aggressive agencies would have an immediate incentive to stop patronizing them, lest they become cut off from any business and personal dealings with the rest of society, or even targeted by retaliatory actions of other protection agencies. By the same token, the clients of non-aggressors⁶ would have an immediate incentive to desist from interacting with those who continue to support aggressors, be it financially or ideologically. Those of them who would not do so would not only perpetuate their own insecurity, but would also risk being classified as indirect supporters of the violence committed by rogue agencies.

By “active” ostracism, on the other hand, I mean non-aggressors ganging up against aggressors, in order to nip any outbreak of

⁶ By non-aggression I of course do not mean pacifism or non-violence of the Tolstoyan or Gandhian variety, but simply non-initiation of physical force or threat thereof against others, which does not preclude physical retaliation against others if they are the original attackers.

initiatory violence in the bud. Insofar as the sudden appearance of a rogue agency is a genuine possibility, peaceful agencies would likely contractually oblige themselves vis-à-vis their patrons to act, either individually or jointly, to eliminate any emerging threat as quickly as possible.⁷ Such concerted reactions would plausibly be particularly effective to the extent that companies in question would find it expedient to pool their funds in order to build and maintain the most costly of the relevant capital goods.

Could those allegedly temporary retaliatory alliances possibly lead to the emergence of a coercive military oligopoly, and finally to the re-emergence of a territorial monopoly of force? If our starting point is a polycentric, competitive, entrepreneurial order, I find this scenario unlikely. This is because in such an environment, companies temporarily ganging up against aggressors would be aware that their customers know that their competitive advantage lies in being able to offer the kinds of services and amenities that of necessity would be completely unavailable under a monopoly of force. This, in turn, follows from the fact that coercive-monopolistic conditions by definition prevent such efficiency-enhancing entrepreneurial practices as price differentiation, diversification of goods and services, thoroughgoing specialization, rapid utilization of knowledge of specific time and place, etc. (DiLorenzo 1986). Moreover, and perhaps more importantly, in the environment envisaged in this paper, companies in question would know that their customers will patronize only those protection agencies that are truly and properly protective rather than aggressive, i.e., sufficiently unlikely to ever engage in what Frédéric Bastiat described as “legal plunder” (Bastiat 1998), that is, the use of monopolized force to enact non-consensual redistribution of pre-existing property titles. Were any attempts at legal plundering to be

⁷ It is certainly possible that in the competitive order envisioned in this paper there would also be specifically neutral agencies, which would not react to the appearance of rogue agencies unless directly attacked by them.

undertaken, the bulk of the society under discussion would probably revolt against the would-be coercive monopolists, and engage them in a protracted civil conflict, which, regardless of its eventual outcome, would ruin the financial prospects of the aggressors. Consequently, for profit-maximizing companies initiating such a conflict would be a lose-lose strategy.

Going back to the subject of potential agency infighting, it also has to be noted that initiating acts of aggression would require the aggressor to impose additional costs on his clients, over and above those normally incurred to protect them. In other words, it would require the agency in question to start charging higher premiums for as long as its aggressive behavior would continue, with their level likely corresponding to the intensity of its attacks and the extent to which it would need to replenish its arsenal. This, of course, would temporarily require defensive agencies to raise their premiums as well in order to mount an effective counterattack (or a purely defensive response aimed at eventually draining the aggressor of funds). However, this does not imply that the actions of defensive agencies can be considered as equally expensive as those of aggressive agencies, since the former raise the price of their services only in those cases in which such a step is necessary to allow them to perform their contractually designated function (namely protection), whereas the latter do so whenever they feel that predation is likely to bring them more revenue, or more psychological satisfaction than performing the function just mentioned. In other words, defensive agencies can raise their premiums reactively, but unlike their aggressive counterparts, never proactively.⁸

⁸ Unless a defense agency decides to increase its arsenal in anticipation of a rogue agency's attack. However, to the extent that such anticipation proves correct, the abovementioned decision can be properly regarded as reactive. If, on the contrary, it turns out to be incorrect, the agency that made it will damage its reputation and will consequently have to lower its premiums in order to regain some of its competitive advantage. If it becomes known to make wrong

Consequently, the clients of rogue agencies would have an immediate incentive to desist from patronizing their hitherto protectors not only out of fear of being identified and ostracized as aggressors, but also because being a client of a rogue agency would simply be much more expensive than being a client of a legitimate one (i.e., one true to its contractual obligations).

It could be suggested in this context that:

A very large firm could afford to use force and fraud to at least a limited extent, because the breadth of its market would prevent the news of its aggressive actions from reaching enough of its customers and competitors to do it serious damage. (Tannehill and Tannehill 1970, p. 49)

However, as the authors quoted above immediately point out, since in a free enterprise system unmet consumer demand is responded to by profit-seeking individuals as quickly as possible, and since it seems obvious that there would always exist a demand for such vital information, collecting them and divulging them to the public would constitute a steady source of profits for enterprising journalists, investigators, news agencies, etc.

Hence, just as the problem of “asymmetric information” between buyers and sellers can be addressed by such market solutions as the development of brands, certification companies, quality assurance services, and product guarantees (Klein 1997), the specific kind of information asymmetry just mentioned would most likely be beneficially exploited by news agencies and their highly specialized investigative employees:

Not only inventions and medical and scientific discoveries would be news, so would any aggression or fraud, especially when committed by large and well-known companies. It's very hard to hide things from hotly competing

predictions routinely, it will sooner or later go bankrupt and disappear from the market.

newspapermen looking for a "scoop," not to mention the representatives of radio, television, movies, magazines, and the wire services. (ibid., p. 49)

In addition, it should be remembered that aggressors are always dependent on wealth-creators for their existence, since the former do not create their own means of survival, but only parasitize on those created by the latter. That is why looting is always more risky than producing when it comes to earning a living. Of course, this risk is vastly reduced if any given looter can secure the obedience of those whose resources he loots, be it through intimidation, intellectual or emotional persuasion, promise of participation in the process of looting, or any other means. However, to the extent that the starting point of our analysis is a society that derives its wealth through productive measures – division of labor, accumulation of capital, and entrepreneurship – thus clearly acting on the belief in their efficacy and moral worth, it should be thought of as singularly unsusceptible to methods of subjection mentioned above (Friedman 1989, pp. 156-9; Hummel 2001). Hence, far from securing for itself a steady source of easily extractable income, a rogue agency bent on establishing its rule over the society in question would not only get bogged down in a drawn-out, financially ruinous conflict, but, even if it were eventually to win it, it would by the same token destroy the wealth-creators the control over whom it craved.

Let me conclude this section by illustrating the contentions made above with an empirical example. Even though as of today practically the whole inhabited world is controlled by territorial monopolies of force, which are supposed to provide order to the communities they exercise their authority over, people continue to patronize private protection agencies, hire bodyguards, and otherwise increase their personal security by the use of market means. Their reason for doing this is their concern that they cannot rely on the protection services provided by coercive

governmental monopolies, since the latter are not constrained by the profit-and-loss test, and thus need not care about the quality and cost-efficiency of their operations (or, for reasons associated with their inability to perform meaningful cost and benefit calculations, cannot be said to possess any means of caring about those aspects of their operations even if they genuinely wanted to).

But if coercive governmental monopolies need not (or cannot) care about the quality and cost-efficiency of their operations, and thus cannot be expected to effectively intervene if a given individual's personal security is threatened, then it must be concluded that with regard to the relationship between themselves and their clients, private protection agencies operate under the conditions of practical anarchy. Hence, as the critics of the ideas espoused in this paper would have it, they should be continually aggressing against one another, as well as against their clients, eventually destroying what started out as a purely voluntary industry.

However, the very fact that the market for private protection not only exists,⁹ but thrives (Benson 1998), proves beyond doubt that no such financially ruinous intra-industry conflicts take place. There is, after all, no reason why they should, since the existence of the market in question hinges on the fact that, unlike extra-market entities such as territorial monopolies of force, private protection agencies can survive only if they manage to maintain their professional reputation; this they can do only if they consistently refrain from engaging in acts of initiatory aggression. In other words, the very fact that people turn to private means to safeguard their security indicates that there exists, at least as far as their subjective assessment of the matter is concerned, an "anarchic" vacuum of law and order whenever these two goods are supplied exclusively by territorial monopolies of force. Furthermore, and even more importantly, it indicates that neither the vacuum in question, nor anything worse than it, is recreated

⁹ And has existed since at least medieval times (Foldvary 1994).

on the market for private defense, even though, according to the critics of its viability, it operates under conditions perfectly ripe for violent conflict.

In sum, the above considerations aim at demonstrating that the social model described in this paper would not suffer from the problem of private protection agency infighting, primarily since such infighting would always be more costly than peaceful cooperation.

IDEAS, INSTITUTIONS, AND PREFERENCES

At this point, one might argue that regardless of how logically cogent the above analysis may be, it still lacks practical relevance insofar as it is detached from the broader social and ideological context. In other words, it remains an open question to what extent any given society would be able to appreciate the economically beneficial aspects of private production of defense, and not disregard them for extra-economic reasons.

This is, admittedly, an important subject, especially in connection with answering objections to the main thesis of the present paper associated with the claim that government, even if harmful and unnecessary, is nonetheless inevitable simply because organized coercion generates large positive payoffs that are not subject to any external constraints (Cowen and Sutter 2005), which is amply evidenced by how wealthy government officials all around the world are. However, it is crucial to note in this context that “the payoffs themselves are at least partly a function of institutions and hardly constant for all time. Altering the institutions can alter the level and even the ranking of the payoffs” (Stringham and Hummel 2010, p. 38). To take a concrete example, in today’s world, which is almost unanimously opposed to slavery, slave owners and traders are unlikely to acquire significant wealth and political power, since their activities are confined to the black market. If they were to leave these relatively

narrow confines, they would be immediately ostracized and criminalized. It is essential to note here, however, that their relatively restricted and thus rather weak position does not stem from their inferior organization or their limited ability to wield coercive power. Insofar as these aspects play a significant role, they are derivative of how little ideological support slave owners and traders can muster in today's cultural and moral environment.

My claim here is quite strong: I take it that firm ideological unity among the majority always trumps superior organization of coercive means among the minority (Hume 1971, Higgs 1987; Mises 1996, pp. 188-91; de la Boetie 1997). Could the governments of the world reinstate slavery? Yes, they could. They possess sufficient coercive power at their disposal. But would they dare to do it? No, they would not. The prevalent social attitude toward slavery makes such an action uneconomic from the point of view of the calculus of power. Similarly, could warlords and mafias destroy a stateless order, and replace it with a statist one? Yes, they could. They might possess sufficient coercive power at their disposal. But they would dare to do it only if the prevalent social attitude toward statism made such an action profitable from the point of view of the calculus of power. And there is nothing inevitable as to what this attitude will be.

In any event, there is no reason to suppose that, given a sufficiently strong commitment to a particular set of preferences, maintaining a social order based on those preferences is bound to be more challenging than establishing it in the first place. If the members of a given society were to establish a stateless order not through violent overthrow of their erstwhile rulers, but through their commitment to voluntary methods of, say, peaceful non-compliance and grey market entrepreneurship, the resulting situation would be unlikely to generate a conflict over power vacuum, since "the same social consensus, the same institutions, and the same ideological imperatives that had gained them

liberation from their own state would be automatically in place to defend against any other states that tried to fill the vacuum" (Hummel 2001, p. 533).

In sum, it appears likely that the influence of preferences and ideologies ultimately trumps the influence of organized violence and coercion, thus implying that the emergence of territorial monopolies of force is not only not economically necessary, but also not psychologically inevitable.

CONCLUSION

In this paper, I attempted to demonstrate that 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.

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