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A Note on the Market Provision of National Defense

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Abstract
Market-provided national defense famously suffers from a free-rider problem. According to conventional wisdom, markets must therefore underprovide defense. We argue that conventional wisdom is wrong. The free-rider problem that plagues national defense also plagues national offense, leading markets to underprovide the latter as well. Because national offense is the raison d'etre of national defense, whether or not markets provide the efficient level of defense depends on the severity of the free-rider problem in its production, and thus defense's underprovision, relative to the severity of the free-rider problem in the production of offense, and thus offense's underprovision. Where the free-rider problem confronted in producing national offense is more severe than that confronted in producing national defense, markets produce the efficient level of national defense.

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I. Introduction

Market-provided national defense famously suffers from a free-rider problem. Technologies for defending large populations against other nations' aggression, such as antiballistic missiles, generate nonexcludable benefits. Nonpayers can't be excluded from these technologies' protection, so self-interested citizens contribute nothing, or at least too little, to their provision. Conventional wisdom

concludes that markets must therefore inadequately provide national defense.

This logic is the foundation of many people's belief in the necessity of government. And it's persuasive. So persuasive, in fact, that it alone appears to stand in the way of a large number of classical liberals embracing market anarchy.[1]

This note argues that conventional wisdom is wrong. Market-provided national defense does suffer from a free-rider problem. But this does not mean that markets must underprovide it. We explain why a free-rider problem in market-provided national defense can be compatible with markets providing the efficient level of national defense.

II. The Other Free-Rider Problem

Our argument is so simple that it hardly needs elaboration once stated: A free-rider problem, which plagues national defense, also plagues *national offense*. Many of the potential "benefits" produced when one nation attacks another—the "spoils of aggression"—are nonexcludable. This nonexcludability is largely a consequence of the environment in which such benefits are generated. That environment is anarchic and thus one without monopoly-defined and -enforced property rights.

Consider a nation, A, that attacks another nation, B, in order to pillage B's wealth, and succeeds. Although A has defeated B, given the absence of well-defined property rights in the spoils of war, this does not prevent nation C from subsequently intervening to appropriate A's spoils—spoils made available only because of A's costly aggression. For instance, suppose A decimates B with bombs. However, A is geographically distant from B, whereas C is B's geographic neighbor. C's geographic position puts it in a position to seize control of B before A can, or at least to enter B and haul away a portion of the wealth A seeks. C's geography enables it to free-ride on A's aggression.

Alternatively, suppose that A and C are in a position to enter/occupy the defeated B simultaneously. In the absence of well-defined property rights in the wealth B formerly enjoyed, A and C may fight over the spoils. But C has an advantage. Unlike A, C has

[1] On the provision of national defense under market anarchy, see, for instance, Friedman (1973), Rothbard (1973), and Hummel and Lavoie (1990). On the economics of market anarchy more generally, see, for instance, Stringham (2007) and Powell and Stringham (2009).

not just spent resources on attacking B. Thus, C may again be able to free-ride on A's aggression toward B.

The national offense free-rider problem isn't limited to the material benefits sought through and generated by national aggression. Many intangible spoils of such aggression are also nonexcludable—and nonrivalrous. Suppose A is one of a dozen countries whose political, ethnic, or religious orientation is one of hatred toward the political, ethnic, or religious orientation of B. In this case A may attack B not for material gain, but in order to disrupt or damage B. If A attacks B and succeeds, the resulting "benefit" will be enjoyed collectively, without diminution in quantity or quality, by the other eleven countries whose political, ethnic, or religious orientation engenders their hatred toward B as well.

The potential for such offensive free-rider problems influences A's optimal choice of how much offense against B to produce—its decision about how many resources to spend on attacking B, including whether to spend any resources for that purpose at all. Because A cannot be sure that it will realize all, or indeed any, of the benefits of its expenditures on attacking B, A will underproduce offense. And what's true for A is also true for other nations, which reason similarly.

Because it leads to the underproduction of national offense, the free-rider problem in national offense makes for a more peaceful world. It also creates the possibility that, in spite of the free-rider problem markets face in producing national defense, markets may provide the efficient level of national defense.

Because national offense is the raison d'etre of national defense, whether or not markets provide the efficient level of defense depends on the severity of the free-rider problem in its production, and thus defense's underprovision, *relative* to the severity of the free-rider problem in the production of offense, and thus offense's underprovision. Where the free-rider problem confronted in producing the latter is more severe than that confronted in producing the former, markets will produce the efficient level of national defense.

Other things equal, where the free-rider problem confronted in producing national defense is more severe than that confronted in producing national offense, the conventional wisdom holds: Markets will produce too little national defense. However, even here, the magnitude of the underprovision problem markets confront will be affected by the relative severity of the free-rider problem in

producing defense versus offense. For example, if the free-rider problem confronted in producing national defense is only moderately more severe than that confronted in producing offense, markets may be at only a modest disadvantage relative to government when it comes to producing the optimal level of defense.

III. Concluding Thoughts

Our argument is not that national defense is an unimportant problem for market anarchy. It is that the defense free-rider problem, commonly trotted out by advocates of government in discussions about the functionality of market anarchy, is not the stopping argument those advocates seem to think it is. The defense free-rider problem poses an obstacle for market anarchy. But to appreciate the importance of this obstacle, and indeed to ascertain whether it must necessarily exist at all, free-riding logic must be applied consistently. This is something we have yet to hear a critic of market anarchy do.

Our point is theoretical. The efficiency of market-provided national defense depends not on whether market-provided defense suffers from a free-rider problem that leads to defense underprovision. It depends on the severity of the free-rider problem that defense confronts relative to offense. Which free-rider problem tends to be more severe in practice is an empirical question we have not endeavored to answer. We hope other researchers will find it worthwhile to do so.

There are a few considerations, however, that we expect to be important in making this comparison. If, as is often claimed, individuals have a greater willingness to pay for protection than they do for aggression, one might expect the free-rider problem of providing for defense to be less severe than that of providing for offense. On the other hand, whereas private cooperative (or collusive, depending on one's perspective) agreements between a few dozen countries, which is the level at which the national offense free-rider problem we have pointed to operates, may be relatively easy to forge, similar agreements between many millions or hundreds of millions of citizens, which is the level at which the national defense free-rider problem operates, seem comparatively unlikely.

Of course, there is no reason why agreements for providing for defense must be forged between each of a nation's citizens individually. As members of various larger organizations that encompass many individuals, citizens could reach agreements indirectly in far smaller numbers. Because such possibilities would

also remain open to countries, however, it seems likely that nations would continue to find forging cooperative agreements for offense much easier than citizens within nations would find forging cooperative agreements for defense.

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