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Market-Provided National Defense: Reply to Newhard

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Abstract
Newhard (2016) challenges our argument, according to which the inefficiency of market-provided national defense is an empirical question rather than a logical implication of the fact that privately provided national defense confronts a free-rider problem. We show that his argument holds only under the assumption that private contributions to public goods depend exclusively on the material benefits individuals expect to reap from such contributions. Empirically, this assumption is false. When private contributions to public goods do not depend exclusively on the material benefits individuals expect to reap from such contributions, the efficiency or inefficiency of market-provided national defense is, as our argument maintained, an (unanswered) empirical question.

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I. Introduction

In a previous issue of this journal, we argued that the free-rider problem associated with the private provision of national defense does not, ipso facto, imply the inefficiency of privately provided national defense, as is conventionally asserted (Leeson, Coyne, and Duncan 2014). National offense also suffers from a free-rider problem in that one nation's aggressive activities generate nonexcludable benefits for other nations. Because the efficient level of defense depends on the level of offense a society confronts, whether or not markets underprovide 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. The conventionally asserted inefficiency of privately provided national defense is therefore not a logical implication of defense's free-rider problem, but rather an (unanswered) empirical question.

In a comment on our paper, Newhard (2016) challenges this argument. He agrees with our motivating point that both national defense and national offense suffer from a free-rider problem, but contends that the former must always be more severe than the latter because private contributions to defense depend on the level of offense individuals expect to confront. In short, when expected offense is lower (due to free riding), contributions to defense are lower, too, leaving defense undersupplied even relative to undersupplied offense.

II. Reasonable Assumptions

Newhard's comment highlights an important and unstated, but entirely reasonable, assumption of our analysis: at least some part of individuals' private contributions to national defense is independent of the level of offense individuals expect to face. If such contributions do not decline lockstep with reductions in expected levels of offense, the relative severity of free riding in the production of defense versus offense, and thus the efficiency or inefficiency of market-provided national defense, remains a question that can be answered only on a case-by-case basis.

Why would private individuals' contributions to national defense remain the same, or fall less than proportionately, in the face of a lower expected level of offense? For the same reason that private individuals' contributions to restaurant servers overwhelmingly remain the same, or at least do not fall proportionately, whether individuals are eating at a restaurant they patronize several times a year or are eating at a restaurant they have no reason to expect they will ever patronize again. If individuals were purely selfishly motivated, the percentage they tip servers would move lockstep with the private material benefits they expect to receive as a result of tipping. But as even casual observation of actual tipping practice

reveals, we do not inhabit a world of narrowly selfishly motivated individuals.[1]

Our point is not that national defense could be supplied efficiently on the basis of tipping (though, see Friedman 1989). Nor is our point that people do not overwhelmingly behave selfishly.[2] Indeed, if selfish behavior were not the norm, neither national defense nor national offense would present free-rider problems. If, however, as empirical observation suggests, private contributions to public goods do not depend solely on individuals' expected material benefits of making those contributions, then at least some part of individuals' private contributions to national defense would be independent of the level of offense they expected to confront. And, when this is so, it does not follow simply as a matter of logic that national defense's free-rider problem will always be more severe than the free-rider problem of national offense. Rather, market-provided national defense's efficiency or inefficiency in any given case will depend, as our original article maintained, on the outcome of an empirical evaluation of the relative severity of national defense's and national offense's underprovision.

III. Parting Shots

We hasten to point out that we have never claimed that the outcome of such an empirical evaluation would prove favorable to the prospect of efficient, market-provided national defense. On the contrary, as the concluding comments in our original article made explicit, due to the differing features of the collective-action problem in providing national defense versus in providing national offense, such as the very different number of players involved in each case, the outlook for efficient, market-provided national defense is not strong. But this does not negate the point that if private contributions to national defense do not depend exclusively on expected levels of offense, as Newhard's argument requires, market-provided national

[1] An existing literature provides rational-choice foundations for the private benefits of "other-regarding" behavior. This literature emphasizes how such behavior can improve one's reputation (Tullock 1966), result in social accolades or the avoidance of social scorn (Becker 1974), and/or signal one's wealth (Glazer and Konrad 1996). Arrow (1974, p. 17) emphasizes an intrinsic motivation for such behavior, noting that "the welfare of each individual depends not only on the utilities of himself and others but also on his contributions to the utilities of others."

[2] On the contrary, we agree that they typically do (see Leeson 2014).

defense's inefficiency cannot be asserted simply as a matter of logic, but rather remains an (unanswered) empirical question.

We thank Newhard for providing us the opportunity to make explicit what we presume he will agree is the entirely uncontroversial assumption underlying our original article's analysis. We suspect that statists thank him for his efforts to defend the mythology according to which the free-rider problem associated with privately provided national defense, ipso facto, means that market-provided national defense must be inefficient.

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