

State-Provided Defense as Noncomprehensive Planning

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Abstract

State-provided defense is a form of noncomprehensive government planning with two inherent problems. The first is the knowledge problem of how to allocate scarce resources to their highest-valued uses. The second is the power problem caused by the discretionary power granted to those in the managerial-administrative state to plan military policies and resource allocation. We discuss these dual problems in the context of the US defense sector.

JEL Codes: H11, H41, H56, P11

Keywords: knowledge problem, national defense, power problem

I. Introduction

Even staunch critics of the managerial-administrative state, such as Ludwig von Mises, F. A. Hayek, James Buchanan, and Gordon Tullock, identify a crucial role for government to provide security to citizens. Perhaps the best illustration is Buchanan's notion of the "protective state," which emerges at the constitutional level and is tasked with protecting the core rights of citizens via internal security, contract enforcement, and defense against external threats (1975, pp. 95–97). There is a fundamental tension in the work of these scholars. They identify numerous inherent problems with the operations of the managerial-administrative state. These include the inability to engage in economic calculation, which prevents the efficient allocation of scarce resources, and perverse incentives in political institutions, which result in a variety of undesirable outcomes. At the same time, these authors argue that something akin to the protective state can avoid these problems and successfully provide citizens with protection from threats.

This paper explores this tension with specific focus on those state activities that fall under the broad, and typically underspecified, category of national defense. Economists commonly characterize national defense as a pure public good that must be provided by the state due to market failure (Coyne and Lucas 2016). This characterization, however, raises a host of issues that most economists ignore. For one, it assumes that the state is capable of providing national defense in the efficient quantities and qualities to overcome these market failures (see Hummel 1990; Hummel and Lavoie 1994; Coyne 2015). Moreover, it assumes that the state's activities are purely liberty enhancing instead of liberty eroding (see Coyne 2015, 2018; Coyne and Hall 2018). In making these assumptions, scholars treat national defense as a “black box” whereby an idealized protective state, imbued with the most awesome of powers, acts in a benevolent and omnipotent manner.

We open this black box and shed light on some of the issues with state-provided defense. Our core argument is that the state's defense functions require planning, which faces two fundamental issues as discussed by Lavoie (1985). The first is the knowledge problem of how to allocate scarce resources to their highest-valued uses. The second is the power problem that results from the fact that planning requires granting significant discretionary power to the managerial-administrative state.

Our analysis is best understood in the context of Lavoie's (1985) work on noncomprehensive planning, which refers to state control of parts of the economy with the remainder left to operate freely. Lavoie explores the knowledge and power problems associated with noncomprehensive planning and concludes that “the practice of planning is nothing but the militarization of the economy” because such efforts rely on the military mindset and forms of organization that were employed in the past to organize the war economy. We contribute to this literature and argue that the state provision of defense is the embodiment of Lavoie's noncomprehensive planning. Just like other efforts at noncomprehensive planning, the provision of defense suffers from the aforementioned knowledge and power problems, which we discuss in the following sections. We focus on the provision of defense by the US government, which illustrates the dual problems identified by Lavoie.

II. The Knowledge Problem

To carry out its defense activities, the managerial-administrative state requires a dedicated budget. In the United States, the defense budget emerges through a multilayered budgetary process involving the Pentagon, defense committees in Congress, and members of the military industry (see Thorpe 2014). Once finalized, the various government agencies involved spend the budget on securing resources necessary for defense activities. These resources—labor and capital—are transferred from the private sector and enter a military sector with a unique structure compared to most industries in a market economy.

The national government is the monopoly provider of final military goods and services. In most instances, the production of these goods entails contracting with private firms. In some instances, this process includes the purchase of civilian goods and services that are directed toward military purposes—for example, health care, clothing and uniforms, and vehicles. In other cases, the government purchases defense-specific goods such as weapons and specialized technologies that are not available for public sale to the civilian population.

The reach of the US military sector into economic life is massive. For example, the US Department of Defense is the nation's largest employer with 1.4 million men and women on active duty and over 850,000 civilian employees. In addition, there are 836,000 members of the Select Reserves and 245,000 members of the Individual Ready Reserve forces (Department of Defense 2015, p. 6). According to one estimate, another 1.6 million Americans work in jobs that supply the military with goods and services (Reich 2010).

A review of the top 100 defense contractors illustrates the entanglement of the military with a wide variety of private industries, including aerospace (Boeing, General Dynamics, Lockheed Martin), computer and technology (Hewlett-Packard, IBM), accounting and professional services (Deloitte), courier services (FedEx), engineering and construction (KBR, Parsons), finance and private equity (Cerberus Capital Management), health care (Health Net, Humana), higher education (Johns Hopkins University and Massachusetts Institute of Technology), and telecommunications (AT&T, Verizon).¹ As this (partial) list suggests, the military activities of the managerial-

¹ For a list of the top 100 defense contractors for 2016, see Forecast International's Aerospace Portal online at AeroWeb.

administrative state are intricately entangled with broader economic activity. The result is a form of state capitalism that has been termed “military-economic fascism” due to the public-private partnerships that characterize the military sector (Higgs 2012, pp. 204–25).

The military sector is grounded in noncomprehensive planning. The means of production are privately owned and operated by firms, but the sector is not characterized by private, competitive markets. Instead, military-related production involves entanglements between a massive government apparatus and private firms, with actions governed by bureaucratic rules and mandates.

Competitive markets, grounded in property rights and in free, voluntary exchange, yield market prices that allow participants to engage in economic calculation (see Mises 1920, 1922, 1949; Hayek 1945; Thomsen 1992). Economic calculation guides actors to resources’ highest-valued uses from the consumer’s perspective. Once made, decisions are subjected to the market test of profit or loss. These signals provide feedback to market participants so they can adjust their behaviors accordingly. This ongoing market process provides economic actors with access to economic knowledge as well as the incentive to act on that knowledge (Kirzner 1973, 1997; Lavoie 1985, pp. 51–92, 1986).

The defense sector, by contrast, is guided by the vision, preferences, and demands of those in control of the managerial-administrative state. Final defense outputs are not sold through competitive markets, meaning there is no genuine market price for final goods and services. The economic knowledge that exists in a competitive market is curtailed or outright absent (see Wagner 2016, pp. 136–62). This matters on two important margins.

As Hayek (1978) notes, competition is a discovery process through which people need to discover (and constantly rediscover) the best means of allocating resources to produce a given output. Defense planners do not avoid the need to discover the most economical means of production, as there is no predetermined and given production function for national security (see Higgs 2006, p. 133). Absent the market process, however, there is no way to determine the best means of production among a wide range of technically feasible alternatives that are constantly changing due to innovations and evolving global conditions.

Second, there is no means for planners to determine if outputs are value-added from an economic perspective. That is, there is no way to gauge the opportunity cost of the scarce resources employed

to produce final military-related outputs. This shortcoming does not just relate to comparing one military-related output to another, but more broadly the military-related output to all other possible uses for those resources. In markets, economic calculation empowers actors to gauge the expected value of outputs across other feasible alternatives. This mechanism, however, is muted, if not altogether absent, under noncomprehensive planning.

This matters because economic resources used in the military sector are necessarily withdrawn from the private sector. In the private sector, those resources would have been subjected to the market process (Duncan and Coyne 2013a). As Higgs notes, “by diverting workers and resources to a bloated, privileged, anticompetitive procurement complex, war buildups have actually *reduced* the American capacity to invent, innovate, and enhance productivity along nonmilitary lines” (1993, p. 34, emphasis original). The core issue is not simply one-to-one crowding out, but instead the fundamental inability of planners to resolve the knowledge problem because of their inability to weigh the opportunity cost of employing scarce resources across potential uses.

As an exercise in noncomprehensive planning, government planners are forced to replace the market process with the political process. This process extends the techniques and organizational forms of the military and war economy—top-down command and control, regimentation hierarchy, and bureaucratic mandates enforced through mechanisms of social control—to the domestic economy. The result is the militarization of the economy. This form of militarization is not obvious, as it does not take the form of observable military occupation and direct control, weapons, or surveillance. Instead, it is a more subtle form of militarization, which necessarily emerges as the state military apparatus intervenes in economic life to influence and manipulate outcomes to comport with the vision of planners. In addition to militarizing the domestic economy, defense-related planning also creates significant discretionary power for those in positions of power.

III. The Power Problem

As an exercise in noncomprehensive planning, the defense operations of the managerial-administrative state grant discretionary power to those in positions of control to intervene in the private economy. In general, government planning requires space for those in charge to engage in discretionary decision making. The planning authority

“cannot tie itself down in advance to general and formal rules which prevent arbitrariness” because it requires the power to address “circumstances which cannot be foreseen in detail” (Hayek 1944, pp. 82–83). This power emerges and expresses itself in various ways.

For example, Higgs (1987) argues that during times of crisis, the power possessed by the national government—in terms of both scale and scope—expands, allowing those controlling the levers of government to exert greater influence over the economy. This outcome is perhaps most evident during times of mass mobilization for war, when new powers are explicitly granted to the executive branch. For example, Title III of the Second War Powers Act, enacted March 27, 1942, gave the president of the United States the power to “allocate such material or facilities in such manner, and upon such conditions and to such an extent as he shall deem necessary or appropriate in the public interest and to promote the national defense” (quoted in Higgs 1987, p. 206). This language served as the foundation of the War Production Board, which controlled and manipulated significant portions of the US economy for the last three years of the war.

It is a mistake, however, to assume that significant discretionary political power exists only during major crises. In the wake of World War II, the US government adopted a “permanent war economy” that involved constant military production in preparation for future conflicts (see Melman 1985; Duncan and Coyne 2013a, b). A necessary result of this situation was the institutionalization of noncomprehensive planning, whereby the managerial-administrative state continually intervenes in the operations of the private economy to produce defense. As Seymour Melman (1997, p. 311) summarizes the situation following World War II:

An industrial management with unprecedented powers has been installed in the federal government under the Secretary of Defense to control the nation’s largest network of industrial enterprises. With the characteristic managerial propensity for extending its power, limited only by its allocated share of the national product, the new state-management combines peak economic, political, and military decision making. Hitherto, this combination of powers in the same hands has been a feature of statist societies—communist, fascist, and others—where individual rights cannot constrain central rule.

As this passage makes clear, the noncomprehensive planning at the core of the permanent war economy is characterized by military-economic fascism resulting from the public-private partnerships that define the US military sector. Under this arrangement, outcomes depend less on profitability, as in the private sector, and more on political power. As Melman (1985, p. 35) notes, “while military-industry firms compete . . . in their Pentagon-dominated world ‘competence,’ including political clout, is the coin of competition rather than the price-quantity contest that is more characteristic of civilian firms.” How can a firm establish its competence and exert political power?

One way is through rent seeking and lobbying to establish and maintain relationships with key decision makers who wield power over the allocation of resources. These political connections are central to the process of receiving favorable treatment when government contracts are awarded. Another way to establish competence is through the “revolving door,” which “refers to the back-and-forth movement of personnel between the government and private sector” (Duncan and Coyne 2015, p. 391). The revolving door phenomenon is a direct result of the knowledge problem. In the absence of genuine economic knowledge, government must turn to predetermined “experts” to provide the relevant information to plan policy and allocate resources. The government often relies on experts from private industry to determine its defense-related plans and operations. Likewise, private firms often rely on former government employees to build relationships and navigate the labyrinth of administrative red tape necessary to secure government contracts.

Rent seeking and the revolving door operate in the context of a soft budget constraint, where defense-related agencies face weak accounting and management mechanisms coupled with a lack of willingness by Congress to impose punishments for repeatedly violating existing laws intended to prevent waste and abuse. This problem is illustrated in a recent report by the Government Accountability Office (GAO) (2015, p. 172), which concludes:

The Department of Defense (DOD) is responsible for more than half of the federal government’s discretionary spending. Significant financial and related business management systems and control weaknesses have adversely affected DOD’s ability to control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds

control; prevent and detect fraud, waste, and abuse; address pressing management issues; and prepare auditable financial statements.

Discretion and unaccountability result in predictable political opportunism. Public and private actors in the military sector engage in self-indulgent behavior with little to no consequence. This behavior not only contributes to waste and fraud, but has the broader effect of distorting economic activity (Duncan and Coyne 2013a).

State-provided defense is typically viewed as a prerequisite for the operation of economic life in a capitalist society. But the very operation of the managerial-administrative state that provides defense is the antithesis of capitalism. It requires continual government intervention into the private economy to exist and operate. The resources extracted through these interventions are channeled into a system of noncomprehensive planning that concentrates discretionary power in the hands of a few public and private actors. This reality is not something that can be removed through more rules or constraints on government. Rather, it is a fundamental feature of a system grounded in noncomprehensive planning that requires discretion for planners to deal with unforeseen scenarios and circumstances (see Hayek 1944; Lavoie 1985).

IV. Conclusion

Scholars tend to treat state-provided defense as a prerequisite for a free society. By treating state-provided defense as a black box, however, several crucial tensions have been neglected. These can be summarized as follows.

First, the state provision of defense suffers from the knowledge problem that plagues all attempts at planning by the managerial-administrative state. Scholars have strong theoretical arguments for why these planning efforts fail in a variety of contexts and settings. What they lack, however, is an analogous explanation for why the states' military-related activities somehow transcend these same issues. It cannot be that the knowledge problem doesn't apply to state-provided defense because the justification for government provision is grounded in a market failure argument, which is an efficiency argument. This line of argumentation assumes that the state can come closer than markets to the efficient provision of defense. Scholars who subscribe to the market failure justification for the state provision of defense must offer an argument for how state

planning can work in the case of defense, but not in the provision of other goods and services.

Second, the state's military activities suffer from a power problem whereby a few people possess significant discretionary power, creating space for opportunism and the distortion of economic activity. One potential solution to this power problem is constitutional rules that constrain power. Such rules, however, are limited in their effectiveness because planning requires discretion, which means the behaviors of planners cannot be completely delineated *ex ante*. In addition, the effectiveness of checks on power via congressional or citizen oversight is limited due to the severe information asymmetries in the security sector, which is characterized by pervasive secrecy. Finally, the full effects of state intervention into the economy cannot be predicted *ex ante*, which limits the effectiveness of rules designed to prevent negative unintended consequences (Coyne 2018).

A final issue deals with the way that scholars model national defense. As noted, the default position, even among many government skeptics, is that the state needs to provide defense because of the *ex-ante* assumption that private individuals will not. This conclusion, which is typically stated rather than demonstrated, shows a lack of imagination, especially coming from scholars who, in other contexts, emphasize the importance of entrepreneurship, innovation, and human creativity.

Elinor Ostrom (1990) noted that social scientists were trapped in their model of the tragedy of the commons, which assumed that people were helpless to shape the world they live in. This blind adherence to the blackboard model precluded social scientists from understanding how actors could devise solutions to the issues they faced. A similar critique could be made about state-provided defense. By assuming that private individuals are incapable of providing defense, and that the state can succeed where private actors fail, scholars neglect not only the aforementioned tensions but also the multitude of ways that private actors actually do provide defense (see, for instance, Sharp 1990, 2005; Leeson, Coyne, and Duncan 2014, 2016). In doing so, they underestimate the abilities of people in private settings while overestimating the capabilities of those same people when they populate the managerial-administrate state.

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