

A Note on the Market Provision of National Defense: Comment

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Abstract

In “A Note on the Market Provision of National Defense” (Leeson, Coyne, and Duncan 2014), the authors argue that the public goods of both national defense and national aggression will be underproduced under voluntary provision. They conclude that if underproduction of national aggression is severe enough relative to that of national defense, voluntary provision may be sufficient to achieve the efficient level of defense. I make the case that this mechanism does not result in the voluntary provision of defense at the efficient level.

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As first noted by Olson (1965), the voluntary provision of public goods among large groups is expected to result in underproduction relative to the efficient level as first defined by Samuelson (1954) due to the large transaction costs involved. Being nonexcludable, consumer free-riding leads market provision of goods such as national defense to fall short of efficiency. In “A Note on the Market Provision of National Defense” Leeson, Coyne, and Duncan (2014) rightly observe that since there are also nonexcludable benefits of national aggression, it, too, must be considered a public good that will be underproduced. They conclude that if the underproduction of aggression is relatively severe enough, then the level of defense that is achieved through voluntary provision may be efficient after all. However, their reasoning is not adequately dynamic.

It is the threat of national aggression by foreign powers that makes national defense desirable to consumers. The efficient level of defense is determined in part by the potential level of aggression that consumers face and their estimation of the probability of being attacked; the efficient level rises and falls directly with their perception of the threat of aggression. As the threat of aggression

falls, the decrease in risk will drive down consumers' demand for defense, resulting in a reduction in its efficient quantity; this effect favors the authors' thesis.

Yet, their argument rests on the level of voluntary provision remaining constant as demand for defense falls. Willingness to contribute may also fall as the threat of being attacked and thus the cost of free-riding falls; in a scenario where the threat of aggression is halved, an individual may offer only half his original contribution. The incentive consumers have to offer less than their true willingness to pay remains. This process will prevent the efficient level of defense from being achieved as the threat of aggression falls. Free-riding may even increase exponentially as the threat is deescalated from, say, nuclear first strike and 10 percent chance of death to limited conventional war and 5 percent chance of death.

If national aggression by foreign powers is less than it otherwise would be due to nonexcludability, it is this level that consumers consider in determining the level of national defense they demand. If the nonexcludable benefits of national aggression suddenly became excludable, the demand curves for defense would shift to the right in response to an increase in national aggression, but underproduction should continue even if voluntary provision increases somewhat. If the benefits of aggression became nonexcludable again, the demand for defense would fall in response to a declining risk of attack, but underproduction should continue. Economics is agnostic with regard to the exact level of demand, holding only that voluntary provision of public goods should result in underproduction even as the efficient level rises and falls. As demand falls to zero, voluntary provision should converge toward the efficient level while remaining below it. Also, the authors' analysis assumes that voluntary provision achieves a reasonable level of national defense. Due to large fixed costs in defense, voluntary provision may result in a level of national defense at or near zero (Dougan and Lindsay 2013), in which case voluntary provision can hope to be efficient only if the threat of aggression is close to zero.

The paper does not satisfactorily establish the feasibility of voluntary provision of public goods under conditions of severe underproduction of national aggression. As the authors write, the underproduction of national offense makes the world more peaceful. However, it does not follow on this basis alone that markets may be able to provide the efficient level of national defense. Since demand for defense is a reaction function of the offensive threat, the efficient

level will be defined in terms of the lower level of aggression seen when benefits of aggression are nonexcludable, but voluntary provision should still underproduce relative to this quantity. The assumption that free-riding will undermine efficient voluntary provision among large groups will still hold, regardless of what the efficient quantity of defense is.

References

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