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National Defense and the Theory of Externalities, Public Goods and Clubs

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## National Defense and the Theory of Externalities, Public Goods and Clubs

### I. Introduction

Levin<sup>1</sup> wrote a wonderful little essay showing “How Philosophical Errors Impede Freedom.” His “Skim Milk” fallacy<sup>2</sup> is the mistake of assuming that the truth is the very opposite of what appears to be the case based on logic, careful consideration and observation.

The history of political economy is positively littered with examples of this sort. Perhaps the most famous is Hazlitt’s<sup>3</sup> hoodlum<sup>4</sup> who “heaves a brick through the window of a baker’s shop.” Ordinarily, this would seem to be economically harmful. Levin’s philosophical fallacy concludes the very opposite.

This, however, is but the tip of the iceberg. In this vein Murray points out tongue in cheek that “discrimination against white men is to be encouraged because it is the discrimination to end discrimination.”<sup>5</sup> Commenting on a U.S. standing army during the Cold War, Flynn trenchantly stated, “It makes no sense to militarize the economy in the name of fighting a militarized economy.”<sup>6</sup>

The Edward Bulwar Lytton Prize is awarded every year to the author of the worst possible opening line of a book. This has been so successful that Penguin now publishes five books-worth of entries<sup>7</sup>. Some recent winners, illustrative of the “Skim Milk” fallacy:

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<sup>1</sup> Levin, Michael, “How Philosophical Errors Impede Freedom,” The Journal of Libertarian Studies, Vol. 14, No. 1, Winter 1998-1999, pp. 125-134

<sup>2</sup> Based on Gilbert and Sullivan’s *Pinafore* character Little Buttercup, who sung “Things are seldom what they seem, Skim milk masquerades as cream” (Levin, 1998-1999, p. 129).

<sup>3</sup> Hazlitt, Henry, Economics in One Lesson, Arlington House Publishers, New York, 1979, p. 23.

<sup>4</sup> See also on this Bastiat, Frederic, The Law, New York: Foundation for Economic Education, 1962; Bastiat, Frederic, Economic Harmonies, trans. W. Hayden Boyers, New York: Van Nostrand, 1964.

<sup>5</sup> Murray, Hugh, “White Male Privilege” A Social Construct for Political Oppression,” The Journal of Libertarian Studies, Vol. 14, No. 1, Winter 1998-1999, p. 136

<sup>6</sup> Flynn, John T., As We Go Marching, New York: Free Life Editions, 1944 (1973); cited in Rockwell, Jr., Llewellyn, “Buckleyism, RIP,” Rothbard-Rockwell Report, Vol. 10, No. 7, July, 1999, p. 11.

<sup>7</sup> To be supplied

"With a curvaceous figure that Venus would have envied, a tanned, unblemished oval face framed with lustrous thick brown hair, deep azure-blue eyes fringed with long black lashes, perfect teeth that vied for competition, and a small straight nose, Marilee had a beauty that defied description."

"Stanislaus Smedley, a man always on the cutting edge of narcissism, was about to give his body and soul to a back-alley sex-change surgeon - to become the woman he loved."

"Although Sarah had an abnormal fear of mice, it did not keep her from seeking out a living at a local pet store." The liar paradox, also called Epimenides's Paradox, is another case in point. This is the paradox that if "This sentence is not true" is true, then it is not true, and if it is not true, then it is true. This example shows that certain formulations of words, though grammatically correct, are logically nonsensical. The English philosopher Bertrand Russell, in developing the theory of types, used the following illustration: the statement, "I am lying" is true only if it is false, and false if it is true. Epimenides, a 6<sup>th</sup>-century-BC Cretan prophet, first recorded such a paradox.<sup>8</sup>

Yet another example takes place in the context of sociobiology. Wilson<sup>9</sup> maintains that the social sciences can be reduced to the physical ones; particularly, "that the distinctively human quest for unity of knowledge" can be reduced to, ultimately, physics. Hassing's<sup>10</sup> reply is worth quoting at length<sup>11</sup>:

"The problem of self reference is posed as soon as we ask the question 'what caused E.O. Wilson to write his book?' Suppose we answer that jiggling molecules in E.O. Wilson's brain are the complete and sufficient causes of all the activity, physical and mental, involved in writing Consilience. Now we know a lot about the properties of molecules. Truth seeking is not one of them. If jiggling brain molecules are the whole cause of E.O. Wilson's production of his book, then there is nothing more than a chance connection between human knowledge and the array of letters on the pages of Consilience.... Applying his universal reductionist principles of explanation to his own act of explaining -- referring his explanation to himself -- leads to a certain type of contradiction: what he says contradicts his credibility as a truthful speaker. He fails the test of self reference."

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<sup>8</sup> See Russell ( ), Epimenides ( ). I owe this point to William Friedman.

<sup>9</sup> Wilson, E.O., Academic Questions, Summer 1998; Wilson, E.O., Consilience

<sup>10</sup> Hassing, Richard F., "And Furthermore..." Academic Questions, Winter 1998-1999, p. 6.

<sup>11</sup> States McCarthy, John C., "The Descent of Science," The Review of Metaphysics, June 1999: "Consilience violates a logical rule so basic that it holds for any speech whatsoever: it fails the test of self-reference. The ontological reductionism that purports to be the substance of his speech undermines the rational presuppositions underlying his act of speaking. One must therefore say of his book what was once said by a man whom Wilson credits as 'the grand architect' of modern natural science regarding science in its pre-modern signification: it is "like some magnificent mass without any foundation."

I myself have contributed in a small way to this literature of internal self contradiction. In a debate with a Malthusian concerning the argument for population control, I stated "... even its advocates do not take it seriously. If one were seriously worried about overpopulation, the advocate of that view has one option, and that is suicide. The fact that (my opponent in this debate) is still here, talking, arguing, breathing and living, is contradictory to his stated position. It is, further, hypocritical. It is evidence that he is not convinced by his own arguments. If he were, he has it within his power to lower the population by at least one."<sup>12</sup>

Perhaps the most profound utilization of this insight was offered by Hoppe in his "argument from argument."<sup>13</sup> Hoppe demonstrates that while it is of course possible for one man to initiate violent aggression against another man and his property, he cannot upon pain of contradiction argue that he has a right to do any such thing, for by its very nature, the essence of discourse is to concede to one's opponent the right to use his vocal chords, chest cavity, tongue, throat, etc., and to stand or sit on a certain piece of property. Thus, in arguing for the right to throttle people or steal their possessions, one cannot pass the test of self reference.

No matter what you call it, the Skim milk fallacy, the problem of self reference, the difficulty of committing a pragmatic or logical contradiction, this problem is widespread in the literature of what passes for social scientific thought. But nowhere does it form more of the very basis of an entire philosophical outlook than in the case of national defense provided by governments. To put the thesis of this paper in a nutshell, to argue that a tax collecting government can legitimately protect its citizens against aggression is to contradict oneself, since such an entity starts off the entire process by doing the very opposite of protecting those under its

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<sup>12</sup>Block, Walter, "Population Growth: Is it a problem?", Resolving Global Problems into the 21st century: How Can Science Help Proceedings of the Fourth National Conference of Canadian Pugwash, Peter S. Ross, Sheila Riordon and Susan MacArtney, eds., Ottawa: CSP Publications, 1989, p. 43.

<sup>13</sup>Hoppe, Hans-Hermann, The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy, Boston: Kluwer, 1993, pp. 204-207

control. The government, by its very essence, does two things to its citizens incompatible with this claim. First, it forces the citizenry to enroll in its “defense” activities, and second, it prohibits others who wish to offer protection to clients in “its” geographical area from making such contracts with them, in preference to the one it itself offers to them, under duress. If true protection from violence includes the government itself, and there is no reason it should not, then it is this entity which is the prime rights violator. The state, here, is indistinguishable from the Mafia chieftain who tells his victim he will protect her from himself<sup>14</sup>. What are the specifics?

## II. Externalities

The first attempt to justify the levying of compulsory taxation in order to “protect” the citizen we will consider is the argument from externalities. It is maintained by many economists that national defense is the sort of thing which, while it indubitably helps those who pay for it (they would scarcely consent to be billed were it otherwise), these benefits cannot be fully captured by them. Rather, a part of the good effect “spills over” onto those who have not paid for it. Each person thinks, if others pay for protection from external enemies then I, instead of undertaking the defrayment of these costs, can be a “free rider” on their expenditures. But if all go through this exercise of logic, then each will wait for the others to finance this operation; they will all operate under the hope that the other guy will pay the freight, and they will be passive beneficiaries. As a result, no one will recompense the private providers of this service, there will be no national defense and relatively weak foreign armies will be able to overrun us.

What is the solution to this conundrum? For mainstream economists, it is that the government force the citizenry – all of it – to pay taxes for national defense. In this way the cycle of externalities can be broken. No one will ever need fear that others are riding on his coat tails. They, too, will be forced to bear their fair share of the common defense.

The problem here is one of self reference. If the whole point of the exercise is to protect the people against the violent incursions of others, how can this be attained if at the very outset the government does to them precisely what it is supposed to be protecting them from? That is, according to the logic of this externalities argument, the system is to defend them against aggression. How can this possibly be attained if the government starts off the process by attacking them; e.g., by compelling them to pay for their protection, whether they wish to do so or not?

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<sup>14</sup> Don Corleone, of the “Godfather” movie, famously told his victims he would make them “an offer they couldn’t refuse.” The point, of course, is that if they couldn’t refuse, it was hardly an offer; rather, it was a threat. All of this is crystal clear to the entire audience. Unfortunately, this point has eluded generations of economists, at least when it comes to the government, as the very same “offer” is made to the citizenry.

Another difficulty is that this argument is "too good." It proves too much, far too much. Were it true, it would apply not only to individuals, but also to groups of people: to cities, states, even entire nations. Consider Mexico, the U.S. and Canada in this regard. During the cold war, if America arms, to protect itself against the Russian imperialist bear, this benefit will of necessity spill over to its two neighbors, to the north and south of it, according to this argument. Therefore, the U.S. will not invest in a military establishment. Similarly, for Canada and Mexico. But the Soviets, too, will face the same dilemma. If they prepare to fight the imperialistic war mongering Americans, the Chinese, the Indians, the Pakistanis, the Afghanistans, Hungary, etc., will all be the passive recipients of spill over benefits emanating from the Russian military might. They will thus wait, with baited breath, for the Soviets to do just that. But the minions of Stalin and Lenin he will refuse to do so. Why should they undertake the necessary expenditures, if their neighbors refuse to contribute their fair share?<sup>15</sup>

In point of fact, the Soviets and the Americans did build vast military establishments during the Cold War. As well, the Mexicans and Canadians, to say nothing of the countries surrounding Russia, all saw fit to raise armies. So we know there is something wrong with this argument from externalities. Or, at least, that this argument somehow cannot be made to apply to groups of people such as nations. But there is no reason given for the inability to generalize this argument. On the contrary, for its adherents<sup>16</sup> there are no limits to its applicability.

Could it instead be the case that the military is really an external diseconomy? Instead of spilling benefits over to neighbors, those who arm on a massive scale are engaging in the creation of what the latter deem as harms? This seems to be the explanation of the U.S. gun control laws.

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<sup>15</sup> If I start a government, according to this argument, it will benefit you; if you begin one, I will free ride on it. Therefore neither of us, that is, no one, will undertake this task. In other words, we can use an argument, ostensibly proving the state necessary, to prove that, according to it, this institution could not arise. For more on this see the brilliant Hummel, Jeffrey, "National Goods vs. Public Goods: Defense, Disarmament and Free Riders," The Review of Austrian Economics, Vol. IV, 1990, pp. 88-122.

<sup>16</sup> Ordinarily, at this point I would feel obligated to offer several citations. This is unnecessary in the present context, in that virtually all economists accept this argument. There is not a single mainstream text dealing with the subject which demurs from it. Ok, ok, here is a sample: Dennis C. Mueller, Constitutional Democracy, Oxford: Oxford University Press 1996; Sandler, Todd, Collective Action: Theory and Applications, Ann Arbor: The University of Michigan Press, 1992; Cornes, Richard, and Todd Sandler, The Theory of Externalities, Public Goods and Club Goods, Cambridge: Cambridge University Press, 1986; Buchanan, James M., The Limits of Liberty: Between Anarchy and Leviathan, Chicago: University of Chicago Press, 1975; Olson, Jr., Mancur, The Logic of Collective Action: Public Goods and the Theory of Groups, New York, Schocken Books, 1971; Brennan, Geoffrey, and James M. Buchanan, The reason of rules: constitutional political economy, Cambridge: Cambridge University Press, 1985

For, if it cannot be denied that countries invest in military hardware, this is also true of local citizens. And yet, instead of giving subsidies to those who purchase pistols, and to their organization, the National Rifle Association, the government penalizes such activities to the extent permitted by the second amendment to the Constitution.

The point is, individual citizens are attempting to arm themselves, and the left wing intellectuals who buy into the national defense externality justification of the State, instead of applauding this refutation of their theory, support governmental interferences with it. This, again, is self refutational. Advocates of the externality argument defend state coercion against innocent citizens on the ground that the latter will not defend themselves, due to spill over leakages. Yet, as it happens, when individuals do this (e.g., invest in private armaments), instead of seeing this as the refutation of their theory that it is, they busy themselves weaving apologetics for governmental interferences with these occurrences.

So, which is it? Are guns, pistols, rifles, tanks, rocket launchers, jet fighters, etc., external economies or diseconomies? To ask this question is to expose the fallacies of the entire distinction. For it is not grounded in human action<sup>17</sup>. Rather, it is based on the subjective speculations of the court historians who want to weave apologetics for the governmental initiation of violence against innocent taxpayers by use of the externalities argument; and support statist gun controls on those attempting to protect themselves without help from politicians or bureaucrats, contrary to this argument.

Rothbard's<sup>18</sup> analysis is definitive. Basing his framework on the choices of actual individuals who engage in choice, his concept of demonstrated preference sheds light on this quandary: while most economists, and men in the street under their malevolent tutelage, may claim national defense as an external economy, there are those (pacifists, those who ban guns, were they but logically consistent) who see it from the very opposite perspective, as external diseconomies. The explanation for this gulf is clear: "one man's meat is often another man's poison."<sup>19</sup> For Rothbard, however, both are mistaken. This is because neither grounds its analysis in term of human action: actual choices made in markets.

The positive externalityists my object that they cannot base their analytic framework on

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<sup>17</sup> Mises, Ludwig von, Human Action, Auburn, AL: Mises Institute, 1999; Rothbard, Murray N., Man, Economy and State, Auburn AL: Mises Institute, 1993.

<sup>18</sup> Rothbard, Murray N., "Toward a Reconstruction of Utility and Welfare Economics," San Francisco: Center for Libertarian Studies, Occasional Paper #3, 1977.

<sup>19</sup> This is obvious and literally true in the case of the vegetarian. According to Cornes, Richard, and Todd Sandler, The Theory of Externalities, Public Goods and Club Goods, Cambridge: Cambridge University Press, 1986, p. 159, "In the case of a pure public good, voluntarism may be absent, since the good may harm some recipients (e.g., defense to a pacifist, flouridation to someone who opposes its use.)" But how can it be a "pure public good" if it is a bad for at least some people?

existing markets, since, at least according to their own perspective, there cannot be any market for national defense. In this, they are very much mistaken, as a matter of fact. A large and thriving gun, private detective, locksmith, cyclone fence and insurance industry puts paid to the notion that positive externalities are so powerful (or even that they exist) that they can preclude people from defending themselves, organized through markets. But even were there no such industry in existence the objection advocates of positive externalities might launch at Rothbard come to naught. For in the absence of any demonstration that people who do not pay for a good or service value it nevertheless, at best this claim must be considered unproven.

At worst, however, it can be considered "bloody cheek,"<sup>20</sup> in the British expression. For armed with the idea I can approach you with the following claim: "You, gentle reader, have never hired me as an economic consultant. You have not taken advantage of this marvelous opportunity open to you. However, whether you know it or not, whether you realize it or not, whether you appreciate it or not, you actually benefit from my economic analysis<sup>21</sup>. You are thus a selfish, chiseling free rider on these multi faceted benefits I have long provided for you, gratis. But now it is time to stop you from exploiting me regarding these spill over gains you have long enjoyed for free. It is time for you to pay your fair share! Accordingly, I am hereby presenting you with this bill for \$100,000, a bargain at the price. If you refuse to pay, I will then initiate violence against you."

Not only is this "bloody cheek," but you could reply in the same vein to me. All of us could bill each other for services rendered to any extent we wished. Once we have left the Rothbardian world of demonstrated preference, anyone can make whatever claim he wishes. We are at sea without a rudder.

### III. Public Goods

Another doctrine which has been used in an attempt to defend governmental provision of national<sup>22</sup> defense is based on the concept of public goods. As chart #1 makes clear, there are

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<sup>20</sup> At worst it deserves Rothbard's (Rothbard, Murray N., The Logic of Action: Applications and Criticism from the Austrian School, Vol. II, Cheltenham, UK: Edward Elgar, 1997, p. 178) curt dismissal: "A and B often benefit, it is held, if they can force C into doing something... any argument proclaiming the right and goodness of, say three neighbors, who yearn to form a string quartet, forcing a fourth neighbor at bayonet point to learn and play the viola, is hardly deserving of sober comment."

<sup>21</sup> This goes particularly for those to whom I have made explicit offers of my services; their very refusal indicates they need it the most.

<sup>22</sup> Actually, this is a bit of an artificial construct for our analytic purposes. For the neighbor who lives next door to a man in Seattle may be far more of a threat to him than someone living in St. Johns, Canada, even though the latter, it is claimed, owes allegiance to a different country, and the former is a fellow citizen. Therefore, we will consider both national defense against foreigners, but, as well, and perhaps more importantly, protection against violent incursions whatever their geographic or political source.



two considerations which give rise to an item being considered a public good or not: excludability and rivalrousness. Since either of these conditions admits only of a positive or a

| Chart #1                           |     | Excludability (Can Exclude?) |                             |
|------------------------------------|-----|------------------------------|-----------------------------|
|                                    |     | Yes                          | No                          |
| Rivalrousness<br>(Should Exclude?) | Yes | A<br>(hamburger)             | B<br>(crowded street)       |
|                                    | No  | C<br>(television)            | D<br>(defense, light house) |

negative, this system generates into a two by two matrix. If all people apart from the purchaser can be excluded from the enjoyment of a good, e.g., a hamburger, and if the cost of serving an extra customer is positive, then we have a pure private good. In category A, there is no market failure, and thus no case for governmental intervention into the economy. In category B it is difficult, impossible or very expensive to exclude those who have not paid for the service, and there is rivalrousness, in the sense that each new entrant onto an already crowded street slows down, or imposes costs upon, all others who are attempting to move from place to place.

The crowded city street, then, is a semi public good; semi, because while it passes one criterion of the two pronged test, it fails the other. Nevertheless, it is an instance of market failure; according to this argument; hence government should provide for, create and manage this facility. A similar conclusion applies to category C, only here the causal antecedents are reversed. In this case goods and services are non rival, not non excludable, since non payers can easily be prevented from obtaining the service (e.g., jamming devices for tv broadcasts.) But the absence of rivalrousness is a serious problem. Even though those who do not pay can be cheaply excluded from benefits, efficiency considerations mandate that they not be prevented from consuming, since their doing so imposes no marginal costs on anyone else<sup>23</sup>. In category D we arrive at the pure public good, which "offends" against market efficiency on grounds of both rivalrousness and excludability. Once a defensive army has been put into place, or a credible threat of nuclear retaliation in response to an attack, it costs nothing to add one more person under this protective umbrella. Therefore, not only is it the case that markets cannot provide national defense, they should not, even if they could, since this would violate strictures against economic inefficiency. And it is the same with the lighthouse. Once erected, and its light turned on, it costs nothing to ward off from the dangerous shoals one additional boat; not can a ship be excluded from this benefit, since if the paying captain is to see the light beam, then so must those who did not contribute financially to this enterprise.<sup>24</sup>

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<sup>23</sup> To anticipate our critique below, we can state "No marginal costs, eh? What about property owners who resent being forced to allow non customers to consume for free, at their expense?"

<sup>24</sup> In the view of William J. Baumol (see his review of Dahl and Lindblom's Politics, Economics and Welfare, 1953) which appeared in Economic Theory ?? p. 268): "The price system's shortcomings are equally well described. Its

Perhaps this schema is easier to perceive if we focus on only one type of service. In diagram #2 we illustrate it solely with auto travel corridors. We incorporate the fact that it is easy to exclude motorists from limited access (A and C) highways (e.g., with toll booths), but well nigh impossible to do so for city streets (B and D.) Similarly, when a thoroughfare of either type is crowded (A and B), there is rivalrousness. The marginal traveler imposes costs on all others, slowing them down, whether on street or highway. If empty (C and D), then not. Category D offends the niceties of market failure on both grounds: it is difficult to exclude people even from empty city streets, and there is no economic efficiency reason to do so in any case.

| Chart #2                           |     | Excludability (Can Exclude?) |                       |
|------------------------------------|-----|------------------------------|-----------------------|
|                                    |     | Yes                          | No                    |
| Rivalrousness<br>(Should Exclude?) | Yes | A<br>(crowded highway)       | B<br>(crowded street) |
|                                    | No  | C<br>(empty highway)         | D<br>(empty street)   |

So much for the argument. What are its flaws? They are many, and they are all serious<sup>25</sup>. Consider first, category A. There is no denying that the marginal costs of an ex ante hamburger are indeed greater than zero, in that there are alternatives foregone when one devotes resources in this direction (e.g., that cannot be invested for other opportunities.) However, the same does not apply to ex post or already cooked burgers, for example the ones waiting for purchase at McDonalds, between the time they are placed on the shelf and when someone purchases them. Indeed, not only are the costs of these foodstuffs not greater than zero, they are not even equal to zero. Instead, they have a negative value, in that it costs something positive to dispose of them. This means that rather than placing the hamburger in category A, it must be relegated to C, along with all other goods which are non rival. But the excludability of this fast food item can also be called into question. Yes, if I eat it, you, by definition, cannot avail yourself of it. But there is "many a slip between cup and lip," and also between purchase and actual consumption. How many children (mainly in public schools, not private ones) have been forced to give their lunch up to the playground bully? In all of these cases, the non payers (e.g., the bullies) have not been excluded from enjoying the good in question. Thus, the burger moves not only from A to C, but also from A to B, whereupon it arrives in D.

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inability to provide for communal wants like defense, roads, and lighthouses because of the high costs to any one individual of providing such shareable goods and services..."

<sup>25</sup> For further elaboration, see Block, Walter, "The Justification of Taxation in the Public Finance Literature: An Unorthodox View" Journal of Public Finance and Public Choice, No. 3, Fall 1989, pp. 141-158; Block, Walter, "Canadian Public Finance Texts Cannot Justify Government Taxation: A Critique of Auld & Miller; Musgrave, Musgrave & Bird; McCready; and Wolf," Canadian Public Administration, Vol. 36, No. 2, Fall 1993, pp. 225-262.

In like manner, we can collapse B into D. All we need note is that there are more costs to traffic than crowding costs. The average truck carries many tons of weight, both in its frame on in its cargo bay. This negatively impacts the road bed even in non peak load conditions, at great expense in terms of repairs, and replacement, all of which further slows down all travelers. And yes, to be sure, at off peak hours no motorist retards the speed of any other on average, but suppose you get stuck behind a slow poke at 3:00 a.m. on a one lane road when it is otherwise empty. You are still victimized by the costs of a slower trip.

Yes, non subscribers can be excluded from pay tv, but only at a cost (which is a function of the "arms" race between "offensive" (e.g., hacker) and "defensive" (property owner) electronic technology. This cost can vary, further, depending upon the honesty of the populace, the ease of constructing counterfeit de-scramblers, and satellite dish technology. Conceivably, this can be extensive.

Even if we for the moment accept the coherence of these distinctions, there are difficulties with B and C. The assumption of most economists who buy into this model is that even though there are four separate categories, they do not at all account for an equal 25% of the entire GDP. Rather, for most commentators, A contains the overwhelming majority of goods and services, D encompasses little if anything more than national defense and lighthouses, while B and C even together are far smaller than A.

However, it is possible to expand the coverage of B and C in the direction of D. For example, it might be claimed that marginal cost equal zero in cases where the entire stock is not sold or rented, e.g., where there are vacancies or excess supplies. It is of course true that surpluses tend to be diminished by the falling prices they themselves engender, but this process never works perfectly. We are never at full equilibrium. There are vacant seats in most movie theaters, ball parks rock concerts, circuses, airline flights, classrooms, and empty space in hotels, apartment houses, office buildings, shopping malls and industrial parks. Given, then, that A, B and C can be reduced to D, we must confine our further critical comments to the latter.

One basic difficulty with the entire public goods schema is that whether or not there are costs at all, and whether or not they are positive or negative if they exist at all, is entirely a subjective matter<sup>26</sup>. Costs, essentially, are opportunities foregone; specifically the next best alternative not chosen. Who but the chooser himself can ever be acquainted with any such thing? Certainly not the outside observer- mainstream economist, the one responsible for the public goods dogma in the first place.

Another fundamental error concerns exclusion. It is a basic axiom of economics that private enterprise can be counted upon, *ceteris paribus*, to accomplish any task more easily, effectively and cheaply than government. The market tends to "weed out" the creator of Edsels, for example. This tendency is greatly attenuated to say the least, and virtually non existent, to be

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<sup>26</sup> Buchanan, James M. and G.F. Thirlby, L.S.E. Essays on Cost, New York: New York University Press, 1981; Buchanan, James M., Cost and Choice: An Inquiry into Economic Theory, Chicago: Markham, 1969; Mises, Ludwig von, Human action, Chicago: Regnery, 1949, 1963, 1966; Rothbard, Murray N., Man, Economy and State, Auburn AL: Ludwig von Mises Institute, 1993.

more accurate, in the public sector. The public goods argument, illustrated by this four part matrix, claims that excludability is an important criterion of whether a task should be relegated to the market or government. Yet the ability of the market to exclude non payers (or to do anything else) is very different than that which prevails for the state. We arrive, then, at the circular reasoning that since it would be very costly or impossible for the government to prevent non customers from enjoying a good or service, therefore it is justified that this self same entity, the state, provide it in the first place. To see the fallacy behind this argument, we could start off from the very opposite direction. That is, since it is easy for the private entrepreneur to exclude, this wipes out categories B and D in one fell swoop. Excludability, that is, is a function of markets in the first place; it is thus illegitimate to use this concept as a stick with which to beat the market, since the inability to exclude is a government, not a market failure.

It is a mistake to count the lighthouse as a pure public good in category D<sup>27</sup>. The private lighthouse owner had a credible threat to hold over the head of the boat owner who refused to pay the fee; the next time he was in need of this service it would be turned off, if there were no other ships in the area. The non payers could of course try to ride on the "coat tails" of others in the industry. But this would unduly increase the risks of collision either with other vessels, or with rocks on shore. Further, the non payer would have to tailor his schedule to match those of other travelers, which might be more costly than the lighthouse fee. Alternatively, he could trim his sails to try to disguise himself as another boat. This, too, however, was expensive and even dangerous. And, in the era of steamships, this became all but impossible.

Also ignored is the phenomenon of "internalizing externalities." The problem with the lighthouse is that there is a vast unowned resource interfering with the analysis of markets. To wit, the ocean has not yet been fully privatized. Were this to occur<sup>28</sup>, the owner would likely provide lighthouses in much the same manor as other entrepreneurs (e.g., grocers, bowling alleys) commonly offer lighting services to their customers.

In a similar vein, some economists claim that street lighting is a pure public good, to be placed in D, since it is well nigh impossible to restrict this service to those pedestrians who pay for it. The simple answer is to make it a package deal: combine access to the sidewalk, along with lighting, and charge for both. Restaurant owners, after all, never charge separately for lighting; this is figured into the price of the meal. And, as to restricting entry to sidewalks to customers, it may well be that when all such thorough fares are privatized, access to them will be offered for free, as a loss leader, in exactly the same manner that mall owners do not now charge for use of their passage ways<sup>29</sup>.

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<sup>27</sup>Coase, Ronald H., "The Lighthouse in Economics," Journal of Law and Economics, 17:357-376, 1974

<sup>28</sup>Block, Walter, "Institutions, Property Rights and Externalities: The Case of Water Quality," Agriculture and Water Quality: Proceedings of an Interdisciplinary Symposium, Murray H. Miller, J. E. FitzGibbon, Glenn C. Fox, R.W. Gillham, and H.R. Whiteley, eds., Guelph Centre for Soil and Water Conservation, University of Guelph Press, 1992, pp. 191-208.

<sup>29</sup> Indeed, the very opposite is the case. In the Edmonton Mall, located in frozen northern

What of national defense? With these preliminary remarks, we are now ready to tackle this challenge. First of all, it is relatively easy to exclude non payers from these sorts of benefits<sup>30</sup>.

All that need be done is for the Acme private defense company to issue a plaque to its clients, a large one for their homes, stores and factories, and a small lapel version for their persons. Any person or property not sporting one of these (it would be fraudulent, and punishable by law, to counterfeit these posters) would be "fair game" as far as this protection agency is concerned. The corporation may even go so far as to tell the Cubans, or the Russians, or the Ayatolloah, whoever is the "bad guy" du jour, that Jones has not paid for protection, and thus if he or his property are attacked, no resistance will be offered by this particular private police force.<sup>31</sup> Of course, it would be illicit for Acme to demand of Jones that he pay them, under the threat that they, themselves will engage in an uninvited border crossing against him. Were Acme to do this, it would sink to the level of a governmental protection racket.

Another sort of privatization would likely occur<sup>32</sup> as the same sort of "package deal" which tied together street, highway and sidewalk usage, along with lighting. Under a system of pure laissez faire capitalism, all property (no exceptions) would be privately owned. This

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Alberta, the facility opens up early, before the stores are even ready for business, solely for the convenience of joggers. (There are even quarter of mile markings for their convenience.) The hope, presumably, is that those who make use of these inner "streets" will later come back to shop.

<sup>30</sup> We now assume this for the sake of argument. This is debatable not only because of subjectivity, but also due to the fact that governments have killed more of their citizens than have died in wars. On this see R. J. Rummel, *Death By Government*, New Brunswick, NJ: Transaction, 1996, who calculates the total number of noncombatants killed by their own governments during this century as 169,198,000. See also *The Black Book of Communism: Crimes, Terror, Repression*, eds. Courtois, Werth, et. al. (Cambridge: Harvard University Press, 1999); Conquest, Robert(1990) *The Great Terror*, Edmonton, Alberta: Edmonton University Press; Conquest, Robert (1986), *The Harvest of Sorrow*, N.Y.: Oxford University Press.

<sup>31</sup> Jones of course may employ another firm for this purpose, or engage in self help to ward off his enemies. In an era with no gun controls, it would be a brave criminal indeed who would attack him with impunity.

<sup>32</sup> It is very difficult to anticipate how a market would work in an arena from which it has long been banished. We can only speculate as to the free functioning of this industry. It is as if bananas were always provided for by government, and now some radical was advocating the privatization of this product. The questions and objections would come thick and fast: who would sell them? How many banana stands would there be on each block? How would their easy rotting be prevented? How would the poor be able to obtain bananas? Would they be sold in bunches or individually? We can look askance at all such remonstrances based on the hindsight afforded us by an actually functioning banana industry. Some countries are not so fortunate.

includes, preeminently, roads, highways and streets<sup>33</sup>. Who, then, will protect people as they go about their daily routines of living at home, commuting back and forth to their jobs<sup>34</sup>, with daily side trips to stores and movies, weekly ones to bowling alleys, golf courses and shopping malls,

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<sup>33</sup> For an explication of how this might function, see Block, Walter, "Public Goods and Externalities: The Case of Roads," The Journal of Libertarian Studies, Vol. VII, No. 1, Spring 1983a, pp. 1-34; Block, Walter and Block, Matthew, "Roads, Bridges, Sunlight and Private Property Rights," Journal Des Economistes Et Des Etudes Humanes, forthcoming; Block, Walter, "Road Socialism," International Journal of Value-Based Management, 1996, Vol. 9, pp. 195-207; Block, Walter, "Theories of Highway Safety," Transportation Research Record, #912, 1983b, pp. 7-10; Block, Walter, "Congestion and Road Pricing," The Journal of Libertarian Studies, Vol. IV, No. 3, Fall 1980, pp. 299-330; Block, Walter, "Free Market Transportation: Denationalizing the Roads," Journal of Libertarian Studies, Vol. III, No. 2, Summer 1979, pp. 209-238; Cadin, Michelle, and Block, Walter, (1997), "Privatize the Public Highway System," The Freeman, February, Vol. 47, No. 2., pp. 96-97; Cobin, John, M. (1999), Market Provisions of Highways: Lessons from Costanera Norte. Planning and Markets, Volume 2, Number 1; Gunderson, Gerald, "Privatization and the 19th-Century Turnpike," Cato Journal, Vol. 9, No. 1, Spring/Summer 1989, pp. 191-200; Jackman, W.T., The Development of Transportation in Modern England, Cambridge: Cambridge University Press, 1916; Klein, Dan, "The Voluntary Provision of Public Goods? The Turnpike Companies of Early America," Economic Inquiry, October 1990, pp. 788-812; Klein, Dan, Majewski, J., and Baer, C., "Economy, Community and the Law: The Turnpike Movement in New York, 1797-1845," The Journal of Economic History, March 1993a, pp. 106-122; Klein, Dan, Majewski, J., and Baer, C., "From Trunk to Branch: Toll Roads in New York, 1800-1860," Essays in Economic and Business History, 1993b, pp. 191-209; Klein, Dan and Fielding, G.J., "Private Toll Roads: Learning from the Nineteenth Century," Transportation Quarterly, July 1992, pp. 321-341.; Klein, Dan and Fielding, G.J., "How to Franchise Highways," Journal of Transport Economics and Policy, May 1993a, pp. 113-130; Klein, Dan and Fielding, G.J., "High Occupancy/Toll Lanes: Phasing in Congestion Pricing a Lane at a Time," Policy Study, No. 170, Reason Foundation, November 1993b; Roth, Gabriel, The Private Provision of Public Services in Developing Countries, Oxford: Oxford University Press, 1987; Roth, Gabriel, Paying for Roads: The Economics of Traffic Congestion, Middlesex, England: Penguin, 1967; Roth, Gabriel, A Self-financing Road System, London, England, The Institute of Economic Affairs, 1966; Rothbard, Murray N., For a New Liberty, Macmillan, New York, 1973; Woolridge, William C., Uncle Sam the Monopoly Man, New Rochelle, N.Y.: Arlington House, 1970.

<sup>34</sup> A common ploy of apologists for the state is the claim that just as we need rules of the road, otherwise there would be many fatalities, so do we need governments, to set up the "rules," not only for the road, but in general. See for example Brennan, Geoffrey, and James M. Buchanan, The reason of rules: constitutional political economy, Cambridge: Cambridge University Press, 1985, pp. 7-12. In the context of government roads, there is a certain low cunning to this argument. But the concept of highway privatization shows this line of reasoning for the fallacy that it is.

monthly ones to downtown, and annual vacations to far away places? Why, the owners of these amenities, that is who. Remember, unlike at present, wherever a person goes he will still be on private property. Each owner thereof will be highly motivated to ensure that no crimes occur on his premises, because if they do, there goes the present discounted value of his property<sup>35</sup>. Moreover, unlike the public police and governmental soldiers, in addition to having a patriotic or esprit des corps motivation for guarding life and limb, they will also have a financial incentive to do so. It is no accident that the thoroughfares in Disney Land are far safer than those in New York's Central Park. Let one or a few rapes and murders occur in the former establishment, and profits begin to plummet, as customers stay away in droves. Allow a few more, and bankruptcy looms, and with it the threat that the present owners will lose their property to entrepreneurs able to maintain a safety level consistent with a healthy bottom line. In very sharp contrast, when Central Park become a quasi militarized zone where criminals run riot, no one in a position to do anything about it loses money. Fees for the upkeep, maintenance and safeguarding of this park are derived from taxes, that is, compulsorily. No bankruptcy is possible. The only feasible remedy is a political one. But for that, the park users may have to wait as long as four years. Even then, they have no way to directly express their dissatisfaction with park safety. They must choose between two mayoral candidates who are responsible for far more than the protection of a few acres of land.

The police, too, instead of confining their activities to guarding innocent people against criminals, actually themselves engage in the behavior associated with the latter. First and most basic is that fact that the revenues raised to pay their very salaries, purchase their uniforms, vehicles, weapons, etc., are based on compulsion. To wit, they engage in the very action against which they are sworn to protect their "customers." It is hard to imagine a more blatantly self contradictory system. But in addition to that outrage, they partake in a whole host of ancillary aggression. For example, they arrest people for buying or selling pharmaceuticals arbitrarily declared illegal. They act likewise with regard to capitalist acts between consenting adults concerning sex, reading material, wages, working conditions, hours of labor, building codes, the list goes on and on. While the police do indeed also spend time stopping murderers, rapists, robbers, in none of these victimless "crime" cases are they by any stretch of the imagination protecting person or property. Instead, they are interfering still further with private voluntary contractual arrangements.

Given that it would be feasible for private police to exclude non payers or non customers from the safety they afford (that is, we must move this service from D to C) what of the other part of the argument, that concerning rivalrousness? Do cops have a positive marginal cost? (That is, can we also transfer police services from C to A?) A moment's reflection will convince us that we can. For surely a body guard can more effectively protect one client than he can 100, or 1,000. If

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<sup>35</sup>Stringham, Edward, "Market Chosen Law," The Journal of Libertarian Studies, Vol. 14, No. 1, Winter 1998-1999, pp. 53-78, shows that the owners of roads, malls, gated communities, insurance companies, would safeguard those living in or passing through their property not out of benevolence, but based on profit considerations.

so, it costs more to ensure the safety of additional people. Consumers of protection, then, are rivalrous with regard to one another.

When we move from the arena of internal police protection to the external region of armies and international relations, the story is much the same. National defense, too, cannot be categorized in D. It is neither impossible to exclude non payers nor it is true that bringing in an additional person under the safety umbrella costs no additional resources. Take the latter claim first. If it were indeed the case that it were costless to protect additional people, once an army and, say, a credible nuclear threat of retaliation were in place, then Rhode Island alone could fight all our wars. Why bring in additional tax revenues from Texas or Alaska or Hawaii or Florida? They would be unnecessary. Secondly, in like manner, there would be no reason the entire continents of North and South America could not be safeguarded from external aggression, not by the U.S., which, conceivably, is powerful enough to accomplish this task, but by any smaller weaker political jurisdiction, the international equivalent of Rhode Island: Canada, or Uruguay, for example. If these contentions are preposterous, as they are, then the same assessment must be placed on the argument that there are no extra costs for protecting additional people.

Take another case. Suppose two armies invade the U.S. at the same time: one from the Atlantic, the other from the Pacific. Surely our defense forces could do a far better job if they were able to focus their entire attention on only a "one front" war. That they are charged with the obligation to defend both east and west coasts at the same time cannot help but put a crimp in their overall efforts.

Now consider the former claim. Is it possible to exclude non clients from protection? It is easy to see this is the case when it comes to conventional weaponry. If no one in Arkansas pays for protection from Moamar Khadaffy, then the private XYZ firm offering to keep this worthy at bay simply will not interfere with the latter's plan of Arkansas conquest. Instead, XYZ will limit itself to ensuring this eastern assassin keeps his mitts off of customers in New York and New Jersey, say, the areas from whence it draws its revenue. Suppose now that 1/3 of the inhabitants of Arkansas sign up with XYZ, and that they are spread through out this state. Again, no problem. The international protection agency borrows a lead from its purely domestic counterpart: it gives out medallions only to its clients, and Moamar (as well as local villains) is given to understand that XYZ will look the other way if a non customer is attacked.

At first blush it is more difficult to see how this might work with the nuclear umbrella. After all, if a threat of Mass Assured Destruction -- if need be, will protect Arkansas from the Russians, those in the surrounding states of Missouri, Tennessee, Mississippi, Louisiana, Texas and Oklahoma need not help finance the Inter Continental Ballistic Missile system, which is intended to "lob one in to the men's room of the Kremlin." Those cheapskates can allow the Arkansans to do this all by themselves. The problem is, this argument proves far too much. For if their ploy will work for the front line states contiguous to Arkansas, it will function anywhere in the world. If one can in this way place the sword of Damocles over the head of every Russian in a position of authority (and, of course, all others residing in that country) then there is in principle no limit to the demands which may be made of them. There is, then, no reason to confine the non excludable area to that surrounding this one state. Theoretically, the entire world is the realm to



which the area of non excludability extends.<sup>36</sup> If this is so, then there is no case for the defense of the various national governments in the nuclear club constituting public goods in category D. Rather, what we have here is an argument for a world government, encompassing all of the peoples of the earth.

#### IV. Voluntary Clubs<sup>37</sup>

In addition to the externalities and public goods arguments in defense of government, there is also the view that this institution is really part of the market in that it really doesn't initiate violence against its members. Rather, the government is, at bottom, similar to a private club; since the latter is not guilty of the initiation of violence, then neither can this apply to the former. If this is so, then statist organized national defense is no more problematic than any other private initiative, e.g., than a hot dog stand. It is imperative, then, if the argument for government protection is to be critically analyzed, that these claims be exposed for the tissue of fallacies they are.

Consider in this regard the following:

"One way to think of government is that it is like a club. Just as a tennis club exists to advance the interests of its members playing tennis, government exists to advance the common interests of its citizens. The club analogy is also useful in thinking about the question of secession. Just as the right to withdraw from a club, if it no longer serves one's interests, seems reasonable, so too under certain circumstances is the right to secede.

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<sup>36</sup> Of course, a similar case obtains with regard to the Russians living in one small area, Moscow for example.

<sup>37</sup> The writing of this section was prompted by discussions with my colleague William H. Friedman.

"The withdrawal of an individual from a club can adversely affect the other club members. Suppose, for example, that the club's facilities were built under the assumption that 1,000 members would cover amortization of construction and maintenance, costs. If membership fall below 1,000, the remaining members must pay higher annual fees than originally planned. With this in mind, the founding members of a club may agree to impose a penalty on those who withdraw, or require that they put up a bond to be forfeited upon withdrawal, unless they can find a new member to take their place."<sup>38</sup> Of course, if the club can determine the penalty to be imposed upon those who secede, it can also, like a government, prohibit this from occurring in the first place.<sup>39</sup>

Another author with similar views is Blankart: "The state can be viewed as an organization similar to a club. Clubs are formed by individuals who want to pursue a common goal. Similarly a state can be defined as a club formed by citizens, and designed to serve goals that its members have in common, like the provision of public goods such as law and order, national defense, streets and highways, etc."<sup>40</sup>

"A state is a peculiar kind of club in that its dimensions are (generally) defined geographically."

The idea that government is analogous to a private voluntary club, or, better yet, is nothing more or less than a private voluntary club, is widely credited to Buchanan<sup>41</sup>. We shall,

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<sup>38</sup> Dennis C. Mueller, Constitutional Democracy, Oxford: Oxford University Press 1996, p. 81. Mueller also writes (p.301), "A state is like a club formed to fulfill common interests of its members. Like other clubs it will be better able to fulfill these interests the closer they are in common. Just as the optimal membership of a club is unlikely to include every person who could possibly be a member, the optimal membership (citizenry) of a polity does not necessarily include every person who could possibly be a citizen. I owe these cites to Ed Stringham.

<sup>39</sup> For the case in behalf of secession, see McGee, Robert W., 1992, "The Theory of Secession and Emerging Democracies: A Constitutional Solution," Stanford Journal of International Law, Vol. 28, No. 2, pp. 451-76; McGee, Robert W., 1991, "A Theory of Secession for Emerging Democracies," The Asian Economic Review, Vol. 33, No. 2, August, pp. 245-265; McGee, Robert W., and Lam, Danny, 1992, "Hong Kong's Option to Secede," Harvard International Law Journal, Vol. 33, No. 2, pp. 427-440. Can someone please help me out with more biblio on secession? Didn't the Mises Institute publish a book on this topic?

<sup>40</sup> Blankart, Charles B., "Club Governments versus Representative Governments," Constitutional Political Economy, Vol. 5, No. 3, 1994??

<sup>41</sup> See Buchanan, James M., "An Economic Theory of Clubs," Economica, February 1965, pp. 1-14. This claim is made by Holcombe, Randall G., The Economic Foundations of Government, New York: New York University Press, 1994, p. 73, and by Cornes, Richard, and Todd Sandler, The Theory of Externalities, Public Goods and Club Goods, Cambridge: Cambridge University Press, 1986, p. 161 (in the view of the latter, this attribution should be shared by Olson, Jr., Mancur, The Logic of Collective Action: Public Goods and the Theory of Groups, New York, Schocken Books, 1971

however, pursue Holcombe's version of this doctrine. It is very confused and contradictory, but its twists and turns, its contradictions and obfuscations, can serve as a good foil. Although this author specifically states "Few people would be willing to argue that the government is nothing more than a large club ..."42, and indeed, this is wildly mistaken, this is precisely his view, I shall argue. Only instead of maintaining that the state is really a voluntary organization, Holcombe believes, instead, that voluntary clubs are really coercive!

Exhibit "A" in this contention of mine is his "exchange model of government."<sup>43</sup> Now, for most people, "exchange" implies voluntary interaction. A pie delivery man gives one of his pies to the milk delivery man, and the latter reciprocates, in kind, as the very famous Norman Rockwell drawing illustrates. But Holcombe is having none of this. Instead, he maintains, in an "exchange" scenario from hell:

"One possibility would be for the strong person to enslave the weak one and force the weak person to work for her (sic). The strong person is the residual claimant in this case, but ... the weak person has little incentive to be productive... the weak person has no incentive to produce things that he knows will just be stolen from him later...

"Another possibility from the starting point of anarchy is for the strong person to agree to take only a predetermined share of the weak person's output. For example, if both people agreed that that weak person would give the strong one-third of his output, both could be better off. The weak person now has an incentive to produce, knowing that he will be able to keep two-thirds of his output, and the strong person gets one-third of the weak person's output. Under anarchy, the weak person would be unlikely to produce anything that could be taken by the strong, reducing the output that could be produced by both persons. The two-person society is more productive, and both people are better off under the agreement that the weak person shares a specified percentage of his production with the strong" (emphasis added).<sup>44</sup>

The difficulty, here, is not that Holcombe ascribes coercion to statist institutions. On the contrary, this is entirely correct. The problem is the perversity of language used to describe such a relationship: in terms of exchange<sup>45</sup>, and agreement. If this be "agreement" it is the "agreement" of the holdup victim to be robbed, rather than shot and then robbed; it is the "agreement" of a

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<sup>42</sup> Holcombe, *ibid.*, p. 73

<sup>43</sup> *Ibid.*, p. 32.

<sup>44</sup> *Ibid.*, p. 33.

<sup>45</sup> *Ibid.*, p. 36.

woman to be raped, rather than raped and killed, when she really “agrees” to neither. In short, it is no agreement at all. Such confusing language seems almost purposefully obfuscatory.

Holcombe, goes on to describe government as the “exchange of protection for tribute,” and to claim that this “benefits both citizens and their government. The former is merely the idiosyncratic language we have come to expect from this author. When one side “protects” the other from depredations emanating from itself, this is only “protection” in the Mafia or protection racket sense of that term. It is, to be crystal clear, not protection at all but rather invasion or theft. And to say that both sides of this transaction “benefit” is to add insult to injury. If this were really a mutually beneficial trade, as in the case of the barter of the pie and the bottle of milk, both sides would enter into in voluntarily. But here, as even Holcombe admits, one side enters in the “agreement” under duress. Some contract<sup>46</sup>.

For an author who sees a strong parallel between government and clubs, Holcombe is guilty of a bit of inconsistency. For example, he states,

“If clubs are fundamentally voluntary organizations, then one can have little reason for wanting to interfere with the club’s activities. People who do not like the club’s activities do not have to join. If governments a(re) (sic) fundamentally coercive organizations that force people to abide by the government’s rules, then everyone in the group has an interest in the government’s activities.”<sup>47</sup>

But this is more than passing curious. He just got finished admitting that governments are indeed coercive, in that they force people into “contracts” with them. Why the delicacy here? Secondly, parallel construction would have forced him to conclude the quote above not as he did, but rather by saying, “then everyone in the groups would have much reason for wanting to interfere with the government’s activities.” Why shrink back from the implications of one’s own premises.

Then, too, Holcombe resists the equation of taxation and theft. He states, “Even if one regards taxation as theft, one would hardly say that a thief becomes a government as the result of his thievery.”<sup>48</sup> Very much to the contrary, starting from Holcombe’s premises, one would be compelled by the laws of logic to assert this very thing, apart from the fact that a government is defined as a thief with legitimacy<sup>49</sup>.

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<sup>46</sup> One more example of Holbombe’s internal inconsistency: He maintains (p. 34) that “... no rights have been established ... in anarchy...” But if so, how can any “stealing” take place? For surely theft is a concept dependent upon there being rights in existence. If none exist, then by definition it is impossible for there to be stealing. All such acts would have to be described as “transfers” of goods, or some such, from one person to another. If no rights have been established in anarchy, what, then, gives anyone the right to leave this state of affairs, and to set up a government? With no rights at all, it would appear that any such action should be precluded.

<sup>47</sup> Ibid, p. 72

<sup>48</sup> Ibid., p. 73

<sup>49</sup> See on this Rothbard, Murray N., For a New Liberty, Macmillan, New York, 1973, p.

But government, as I say, is not the main problem for Holcombe. At least this author admits, in his own befuddled language, that the government is indeed guilty of threatening violence against the citizens unless they “agree” to pay tribute<sup>50</sup>, even though he fails to fully carry through on this insight.

In contrast, the real difficulty is that Holcombe sees coercion in voluntary organizations such as clubs. Take what some would consider as the rather inoffensive bridge club, which provides that its members host the meeting once per month: “The bridge club taxes its members by requiring that they pay for refreshments every fourth week. There is also a certain amount of work involved in hosting the group, such as setting up a place to play, preparing refreshments ... and cleaning up afterwards. This forced labor is similar in concept to a military draft ...”<sup>51</sup>

This author would not like to be interpreted as seriously maintaining that the bridge club is coercive. This, it might be thought, is too contrary to common sense, even for him. Instead, he might like to be interpreted as merely using this example as an entering wedge, to show that there is no real difference in principle between coercive and voluntary arrangements. He specifically states that there is a “continuum from clubs to governments”<sup>52</sup>. But he cannot be allowed to escape that easily. For in effect Holcombe maintains in effect that the bridge club is partially coercive<sup>53</sup>. But this is a monstrous and presumably purposeful use of misleading language, at least on the part of a native speaker of English. If the bridge club, forsooth, is a coercive institution, even partially so, then there is no hope at all for clarity in this field.

His heavy artillery in this regard is the distinction, or, rather, lack of distinction, between the neighborhood association swimming pool, which arises out of covenant, or contract, and the municipal pool, which is of course based on taxation. He is fooled by the superficial similarities in the two cases into thinking that there is no relevant difference between them. He states:

“Surely the (difference between them) cannot be related to coercion. Both the neighborhood pool organization and the municipal government have the ability to force its

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51, who states “... anyone who persists in thinking of taxation as in some sense a ‘voluntary’ payments can see what happens if he chooses not to pay.” Holcombe, p. 83, takes Rothbard (For a New Liberty) to task for “exempt(ing) criminals from the realm of government.” He does not appear to realize that for Rothbard there is simply no difference at all between a robber gang and a government apart from the better public relations, courtesy in large part of suborning the intellectual classes (see Hoppe, 19xx on this), of the latter.

<sup>50</sup> When the barbary pirates demanded agreement to this sort of thing, the cry went out, “millions for defense, not a penny for tribute.” This would be not wise or unwise in Holcombe’s exasperating terminology, just or unjust, but rather completely incomprehensible.

<sup>51</sup> Holcombe, op. cit. p. 75.

<sup>52</sup> Ibid., p. 74.

<sup>53</sup> He makes a similar point (p. 85) with regard to private restaurants which impose dress codes, characterizing this, too, as the use of “coercion.” I submit that this is also perverse.

residents to contribute to its coffers. In both cases the individual cannot escape the organization without moving away, but in both cases it is possible to move away."<sup>54</sup>

The obvious difference between the two cases, well apparent to anyone who understands even a smattering of political philosophy, is that in the former case, the swimming facility is privately owned, while in the latter case it is not. According to Holcombe, "the subdivision was once a farm and was bought by a developer who divided the farm into individual lots and built houses on the lots. In the center of the subdivision the developer built a neighborhood pool ..."<sup>55</sup> To avail oneself of access to this facility without paying is thus actually to commit theft of services from the private condominium association which now owns the pool. In very sharp contrast indeed, the municipal pool is under the auspices of the town council. There are no private property rights involved. Very much to the contrary, there is a local government, with the power to compel citizens who have signed no contract with it whatsoever. This elementary distinction, so basic to public policy analysis, seems to have entirely escaped notice of this author<sup>56</sup>. According to Schumpeter, "The theory which construes taxes on the analogy of club dues, or of the purchase of the services of, say, a doctor only proves how far removed this part of the social sciences is from scientific habits of mind. This reads as if it had Holcombe specifically in mind."<sup>57</sup>

That the two establishments have some superficial resemblances to each other cannot be denied. But according to Holcombe's own theory of the establishment of the state, individuals came first. Because they suffered under the Hobbesian state of nature, they agreed to "exchange" this state of affairs for one of civilization, and government. But they did not agree to any such thing. As Spooner<sup>58</sup> shows, there is simply no evidence for this contention. No one, not under duress, signed any contract inaugurating the government, and no one ever paid any tax on a voluntary basis. This being the case, the status of the government swimming pool, despite outward appearances, is actually an entirely different proposition from the purely private one. The government did indeed "exchange" tribute for regularity in theft, but Holcombe is in grave error when he likens this to the private property relationships underlying the condominium swimming pool.

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<sup>54</sup> Ibid., p. 77. Material in brackets supplied by present author.

<sup>55</sup> Ibid. p. 76.

<sup>56</sup> Another commentator who is innocent of the sharp divide which exists between freedom and compulsion is Buchanan, James M. ("An Economic Theory of Clubs," Economica, February, 1965, p. 12) who refers to "marginal prices (tax prices, if the good is supplied publicly)..." The point is, if a good is supplied publicly, it is necessarily done through compulsion. If so, it must be paid for through a tax; it is impossible for it to be paid for by a price. Thus, the concept "tax-price" is an internal self contradiction, not to say an abomination.

<sup>57</sup> Schumpeter, Joseph A., Capitalism, Socialism and Democracy, New York: Harper, 1942, p. 198

<sup>58</sup> Spooner, Lysander, No Treason, Larkspur, Colorado, (1870) 1966.

Even after careful attention, it is unclear to me whether Holcombe sees small units of government (e.g., towns and villages) as voluntary, or private condominium developments as coercive. It is unclear because he prevaricates on these two views. The correct position, I maintain, is that both of these are wrong. That is, government, no matter at how "local" a level, is always coercive. This is the essence of that institution. This holds unless there is unanimous agreement at the outset ; but if this is so, then we are no longer discussing statism. In sharp contrast, private voluntary communal arrangements must of necessity be non coercive. If, somehow, they are coercive, then they are to be viewed as an aspect of the government, not the voluntary sector. Criminal gangs, for instance, are necessarily governmental, albeit unofficial.

#### V. Conclusion

We have considered several arguments in behalf of governmentally organized national defense: externalities, public goods, and club theory. We have found all of them wanting. We conclude, therefore, that the case for these institutional arrangements is unproven.