An Economic Perspective on Mercenaries, Military Companies, and the Privatization of Force

by
Jurgen Brauer
College of Business Administration
Augusta State University
Augusta, GA 30907; USA
Phone: 706-667-4544
Fax: 706-667-4064
jbrauer@aug.edu
http://www.aug.edu/~sbajmb

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Abstract: In this article, I argue that the emerging public debate over privatization of military force in its international context is somewhat misplaced. Privatization of force is not an "issue" but a fact and the distinction between "public" and "private" may be much less clear than originally thought. Instead, the pertinent issues actually concern monopolization and legitimization of force, not its private or public origins. I conclude that the political debate on the future of armed force can proceed more focused and sharpened if basic economic concepts were brought to bear on that debate.

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Introduction

In recent years reports of mercenaries participating in Africa's interminable conflicts have given rise to fears that a major restructuring of force — the privatization of military force — is at hand. Sandline International and Executive Outcomes, private British/South African firms providing military advice and mercenary troops, were much in the news in the mid-1990s. Executive Outcomes obtained government contracts in Angola (in 1993) and Sierra Leone (in 1995) to protect mining assets and to fight rebels.[1] Under pressure, especially from the British government, since Executive Outcomes maintained offices in Britain, the company announced on 10 December 1998 that it would close down its operations effective 1 January 1999.

Sandline International came into the international news when it recruited Australian mercenaries for deployment in Papua New Guinea. According to reports the company offered military advice, training, and force essentially in exchange for mining concessions. In both cases, the west African and the Pacific Island ones, mercenaries engaged in battle with rebels to protect or repossess important mining assets (oil, diamonds, bauxite).

The press, in knee-jerk reaction, generally derides these modern-day mercenaries with headlines such as ‘Guys with Guns,’ ‘Executive Incomers,’ ‘Have Gun, Will Prop Up Regime,’ and similar titles. Defenders are few.[2] A variety of nations created or strengthened anti-mercenary laws (e.g., Australia and South Africa in the wake of the Sandline International/Executive Outcomes embarrassments), prohibiting citizens and residents to participate in mercenary activities, and a few more nations signed on to the UN’s 1989 International Convention against the Recruitment, Use, Financing, and Training of Mercenaries. Still, it is not clear at all why countries such as Angola, Sierra Leone, and Papua New Guinea should be prevented from hiring foreigners in the training of regular troops and supplementing of national armed forces in battle. After all, the United States and other nations regularly train foreign military officers and routinely intervene militarily around the world, supplementing with their own troops those of foreign governments. The difference is merely that in the former case a public agency (‘government’) contracts for military services with a private firm, whereas in the latter case a public agency contracts with (‘invites’) another public agency’s armed forces. An economist suspects that the international uproar over Sandline International/Executive Outcomes has little to do with privatization of conflict and war *per se*. At issue is governments' wish to protect their monopoly on force, an eminently economic topic.

This article looks at privatization of force from an economist's point of view. In section one, I take a brief historical look at the topic of privatization of force (‘mercenary force’). Privatization is not new, but longstanding and widespread. The current conjunction of public, monopolized force is an historic accident. In section two, I provide a few handy examples to demonstrate that even in contemporary nation-state societies, privatization of force is widespread, even pervasive. In section three, I look at the creation and use of force from a public-choice point of view and take a 'walk around goods-space' to show that the distinction between private and public force is arbitrarily discrete. Section four addresses monopolization of force, how that monopoly is rightfully, i.e., economically, legitimized, and why democratic nation-states would wish to insist on monopolized force. Finally, on the basis of externality effects and opportunity costs, section five shows that the relevant decision-making and security-consuming unit may not always be the nation-state, but may be a smaller or a larger unit. In sum, I argue that the public and political debate over privatization of military force *per se* is somewhat misplaced and can be focused and sharpened if it paid attention to an economic point of view.

Mercenaries

A database search (PAIS International, Periodical Abstracts, Social Sciences Abstracts, EconLit) for the 1980s and 1990s on the keyword "mercenaries" yields several dozen published pieces. Scanning these, it is clear that in news, political, and academic circles the mercenary topic elicits considerable unease. One finds mercenaries portrayed as roving bandits being paid with mining concessions, being involved in arms smuggling and drug dealing, propping up illegitimate regimes, recruiting soldiers-of-fortune across nation-states' boundaries, and somehow bypassing "legitimate" state-based powers of international violence. All this jars with implicit, and unquestioned, romanticized notions of citizen-soldiers, whether conscripted or privates, fighting for the good of their nations; it jars with the ethos of fighting for one's country, its ideals, and its interests. Citizen-soldiers are, somehow, 'good,' and mercenaries are, somehow, 'bad.' In addition to the news reports, the pieces the database search picks up stem primarily from the viewpoints of political science and international law. One finds little economic analysis.

A database search of Dissertation Abstracts, also on "mercenaries", lists 43 abstracted doctoral and masters' theses from 1965 to 1998, almost all primarily historical in nature. The historical treatment of mercenaries clashes with the contemporary treatment. One learns that prior to fully formed nation-states and standing armies mercenaries, privateers, and filibusters were commonly engaged for warfare in exchange for monetary or other compensation.[3] The historical studies detail the nature and widespread use of mercenaries in ancient China and Japan, in biblical Israel and classic Greece, in medieval Italy, czarist Russia, pre-revolutionary France, Shakespeare's England, and so on. One learns of *condottieri* ('contractors'), leaders of free companies of foreign men hiring themselves out to fight the wars of the various Italian states of the mid-14th to 16th century.[4] The men were loyal to their respective *condottiere*, not to the state they happened to fight for. This led to somewhat prolonged and subdued battles: prolonged battles would bring more income and subdued battles would spare the lives of the opposing mercenaries.[5] This is an early example of a principal-agent problem, to which I return briefly later on in the essay, but it already points up the problems of efficiency and control of force regardless of whether it is private or public.

Reading more history, one also learns that King George III's decision to hire 30,000 Hessian (German) mercenaries in the American war of independence was skillfully used to inflame American patriotism against British rule.[6] Roughly one hundred years later, just prior to the American civil war, native-born Americans tended to serve in volunteer units, whereas foreign-born Americans tended to serve in regular army units,[7] clouding the definition of exactly how 'foreign' one has to be in order to be citizen-soldier or mercenary. Another one hundred years later, on 23 April 1964, US President Johnson launched the 'More Flags' program, intended to obtain non-military foreign support for the US war in Vietnam. The scheme faltered and underwent changes, to include its covert use as a disguise for America's obtaining mercenary forces from the Republic of Korea, the Philippines, and Thailand.[8] More recently, US and allied forces fighting Iraq from Saudi Arabian soil and airspace were frequently referred to as 'mercenary,' while those fighting Yugoslavia in the Kosovo-Serbian conflict have generally not been so described. Yet on the ground, one can hardly tell a difference between Iraq and Serbia. Similarly, on the ground one can hardly tell a difference between Angolans fighting with Executive Outcomes in the Congo in 1995 as compared to Angolans fighting with the Angolan army in the Congo in 1998 and 1999. One is called 'mercenary,' the other isn't. One difference lies in who pays and who is paid. In Iraq, Saudi Arabian 'public' coffers reimburse the US public purse; in Kosovo, NATO foots the bill itself (in Bosnia, the UN relied on voluntary contributions to peacekeeping), and in Angola the Angolan public purse paid a private firm.

The category of 'mercenary' is difficult to capture and define as it is intricately entwined with notions of nationhood and nation-state which, themselves, are historically recent concepts. The modern unease with mercenaries, writes Janice Thomson, derives from a "basic assumption of international relations theory ... that the state possesses an effective monopoly on the use of coercion."[9] But it was only with the end of the 19th century that states achieve that effective monopoly and that national armies of nation-states became the norm. Sovereignty, Thomson continues, "is not an absolute, timeless and invariable attribute of the state. State authority and control over an important aspect of the state system — international violence — has not been constant and assured, as neorealist theory assumes. It took at least 300 years for the state to achieve a monopoly on external violence. Neither has sovereignty eroded, as interdependence theorists suggest. In the realm of international violence it has clearly been consolidated ... [Sovereignty is] an historical, evolutionary concept whose content varies over time and across states."

Thomson makes an argument for the *decline* of nonstate violence as an outcome of the institutionalization of new forms of sovereignty since the end of the 19th century, reflecting the new states' "capacity to control nonstate violence and the state's increasing responsibility for its citizens' activities beyond its borders." But the post-cold war world has seen an *increase* in nonstate and intra-state violence. The recent worry over mercenary activities reflects renewed fears that states' institutionalized, monopolized, and legitimized use of force is breaking down, particularly in sub-Saharan Africa with its recent post-colonial history of unstable governments. Especially the western world's response suggests that it prefers to locate consolidated and monopolized force squarely within the public realm of nation-states — US secretary of state Madeline Albright for instance threatened withdrawal of US engagement with Angola's peace efforts unless the government of Angola terminated its contract with Executive Outcomes.[10] There seems to be no question that monopolization of state force is preferred and proper. But why should it? Even if we ultimately confirm this preference, it is worth questioning it. This is the first lesson to learn: the current conjunction of domestic and international force *qua* nation-state monopoly on force is an historical coincidence of the past one hundred or so years. Neither before 1900 nor perhaps much after 2000 should we necessarily expect that all force is properly located only in the public realm.

Make or buy?

The second lesson to learn about the topic of privatization of force is to recognize that privatization is not an 'issue' but a longstanding matter of fact. Today, the arms and munitions industries of the mightiest nations are largely privately-held, profitable companies. Their armed forces, likewise, rely not on conscripted but on volunteer forces ('privates') employed for personal gain. Private firms train air force pilots and provide environmental cleanup in conjunction with bomb-making. Even crucial support services rely on private contractors. For example, in the just-concluded war in Kosovo, a private US firm, Brown and Root, a subsidiary of Halliburton, held a $1 billion management contract. It included building the "US army headquarters at Camp Able Sentry just south of the Serbian border, washing the clothes of a few thousand British troops and hauling portable toilets to a US Marine Expeditionary Unit dug into a mountainside skirting the war-torn Serbian province of Kosovo."[11] And as Andrew Rathnell argued in a recent issue of this *Review*, intelligence services also increasingly shift from the (not-so) "public" and secretive domain to the private and open realm.[12]

Privatization of various aspects of modern public force is pervasive. The third lesson therefore is that the emerging debate on the privatization of force cannot and should not be about privatization at all, as this is simply and merely a matter of fact, but about the *control* and *use* of force. To appreciate this point, change the arena from that of nation-state to that of within-state security. In the US, *The Economist* recently reported, spending on private security exceeds that on public law enforcement by a factor of about two ($90 billion to $40 billion in 1995) and there are "three times as many private policemen as public ones."[13] Every college campus, nearly all industrial concerns, almost every entertainment venue and essentially all shopping malls employ the services of security firms. Employees of these firms often are armed, and in many instances official police functions and powers of arrest and detention have been transferred to them. In addition, private households spend billions of dollars on alarm systems, linked electronically to security firms that relay alarm calls to the local public police station. Many communities privately patrol within their neighbourhoods. Other communities erect security fences or walls around their compounds and tightly control access ('gated communities'). The provision of security functions is not strictly a matter of public versus private provision but a matter of the degree of combination. In economists' jargon, security is a joint product. It is not a parameter that is either zero (all public) or one (all private). Instead, it is a parameter that ranges between zero and one, each community and country choosing its own parameter according to idiosyncratic circumstances.

I am suggesting that this situation that obtains *within* countries transfers to that *between* and *among* countries. The degree of combination between private and public elements for the production of security — domestic or internationally — depends on considerations of economic efficiency, subject to historical constraints. This was already recognized in 1776, as Adam Smith detailed in the 'On Defence' section of *The Wealth of Nations*. In Smith's time, the increasing publicness of standing armed forces was an efficiency response to the emerging rise of the nation-state (where the community of the nation-state is the decision-making, security-consuming unit). As from the late 19th century, efficiency and the public provision of security happened to coincide, historically, with the emerging nation-state. But today, efficiency and the exclusively public provision of security may not coincide anymore. I claim that in our time the increasing privatization of various degrees of security functions also is an efficiency response to a different, evolving constellation of constraints. This might well include private "mercenary" services bought by nation-states.

By efficiency response I mean not only the realization that the desired outcome — some form of security — can be purchased in various ways, of which the purely publicly provided way is not necessarily the most efficacious, but also the realization that the decision-making, security-consuming unit may not be the nation-state anymore but, instead, smaller or larger units. Thus, the fourth lesson to learn is that the debate about privatization of force is neither about privatization *per se*, nor merely about its control and use, but about *legitimacy*, *authority*, *authorization*, and *delegation* of force. Once these topics have been addressed, i.e., once the source and goal of force have been agreed upon, it is a different matter — a less important and largely technical matter — to decide upon the least resource-absorbing way to acquire and deploy that force. The make-or-buy decision, i.e., to what degree to produce force in-house by the nation-state or to out-source its production is entirely analogous to make-or-buy decisions of modern private households (do-it-yourself or hire a plumber) and firms (maintain a human resources department or hire via a personnel agency). The make-or-buy decision itself is utterly irrelevant. What is relevant is who makes the decision under whose authority for what ultimate purpose, a topic I take up in later sections.

A walk around goods-space

Economists distinguish among four ideal-types or classes of goods: private goods, public goods, common-resource pool goods, and club goods. They are differentiated from one another along two criteria, the degree of rivalry and the degree of exclusion. A high degree of rivalry means that the good in question can yield its benefits only to one person at a time. A low degree of rivalry means that the good can be enjoyed simultaneously by several persons without being used up by any one of them. If I hire a personal bodyguard, safety services are provided only for me and the degree of rivalry is high: the bodyguard cannot protect you at the same time as he protects me. In contrast, a functioning municipal police force provides safety services from which you and I benefit simultaneously. As regards exclusion, a high degree of exclusion means that a person can be feasibly excluded from enjoying the good in question. In contrast, a low degree of exclusion means that a person cannot be feasibly excluded from consuming the good. If I do not pay the bodyguard then I can be excluded from the benefit the bodyguard provides. But if I do not pay my taxes (e.g., non-tax paying children), it is unlikely that the police officer will not assist me when the need arises.

Consider a two-by-two matrix (see figure 1). Label the two cells in the left column as "high rivalry" and the two in the right column as "low rivalry". Also label the two cells in the top row as "low exclusion" and the two bottom-row cells as "high exclusion". The resulting four cells correspond to the four ideal-types of goods and can be filled in with various examples. The lower left-hand cell is a "private good" (the private bodyguard) characterized by high rivalry and high exclusion. The upper right-hand cell is a "public good" (the municipal police force) characterized by low degrees of rivalry and exclusion.[14] The other two cells are left open for the time being.

Low exclusion	Common-resource pool good: *[left open]*	Public good: *municipal police force*
High exclusion	Private good: *private bodyguard*	Club good: *[left open]*
	High rivalry	**Low rivalry**

FIGURE 1

Some might question whether municipal police forces really do provide low-rivalry protection. The point is granted and is considered momentarily. For now I focus on ideal-types. Transpose figure 1 from the domestic law-and-order arena to that of civil war and international force, i.e., intra-state and inter-state conflict and war (see figure 2). The municipal police force becomes analogous to the national armed force and the private bodyguard finds an analog in a private army or band of rebels under the guide of a warlord.

Low exclusion	Common-resource pool good: *[left open]*	Public good: *national armed force*
High exclusion	Private good: *private armies; warlords;* *rebel bands*	Club good: *[left open]*
	High rivalry	**Low rivalry**

FIGURE 2

As stressed, these are ideal-types. In practice, the boundaries are fluid (the variables are not discrete, but continuous). For instance, if national armed forces are sparse in numbers, then *force thinning* occurs so that deployment of national armed forces to any one region diminishes their availability in another region.[15] The good acquires a higher degree of rivalry; protection is available for some, but not all. The region most likely to be protected is of course the capital city of a country (think of Kinshasa). Thus national armed forces become, at least temporarily, a common-resource pool good, i.e., a good that offers low exclusion benefits to whoever manages to be in its ambit. In the two-dimensional matrix of figure 2, the good shifts from the upper right-hand cell to the upper left-hand cell. In a further move, this 'national' armed force can become a 'regime protector' or 'palace guard.' The good changes its position from the upper left-hand cell to the lower left-hand cell. Low exclusion becomes high exclusion. Now, protection exists only for the regime leader and his immediate cronies, that is, a force that is indistinguishable from private armies, warlords, and rebel bands.

Just as 'national armed forces' can be moved around in this two-dimensional goods space, so of course can 'private armies,' 'warlords,' and 'rebel bands.' Here, instead of force thinning, we may see *force thickening* or 'opulence.' As a warlord's band grows in number and territory covered, more and more people and assets fall within his ambit. Exclusion is high (those outside the territory); but within the territory, rivalry is low as anyone is covered by the 'services' offered. In economists' jargon, this is a club good, i.e., a good whose benefits are shared among members of the club from which non-members are excluded by means such as entry fees, ethnic origin, loyalty oaths, or some other enforceable exclusion mechanism. Eventually, a warlord or rebel leader may achieve the overthrow of formal national government and become national leader himself (think of Laurent Kabila in the Congo). The former private army becomes the new national armed force (in principle, no one is excluded), and the process may repeat itself (think of Kabila's overthrow of Mobuto and the renewed rebellious turmoil in the new Congo).[16]

This 'walk around goods-space' demonstrates that what is private and what is public force can be a highly fluid affair that depends crucially on the stability of existing institutions and their ability to maintain the *status quo*.[17] To repeat the fourth lesson: the debate about privatization of force is neither about privatization *per se*, nor merely about its control and use, but about *legitimacy*, *authority*, *authorization*, and *delegation* of force — it is, at heart, a debate about the degree of competition among and monopolization of force. It is — or should be — a debate about how the institution of force and the institution of its control arise.

Monopoly and legitimacy

As compared to perfect competition, the standard model of monopoly[18] predicts that the quantity of the good traded is smaller, and its price (per unit) higher, than would be the case under competitive market conditions. Unfortunately, it is not entirely clear exactly what the good in question and what the purpose of its production is. Is it force (or potential force), is it public safety, is it private security? If it is force, is that a 'good' to be produced or is it a 'bad' whose production is to be avoided?

To address these questions, start with a 'wild west' scenario. There is no established law and order. To carry out economic activity and secure one's livelihood, reproduction, and survival of the offspring, some security investment must be made, some expenditure of resources undertaken to guard against predators, be they human or non-human. Putting up scare-crows or building fences are, in this respect, security-related expenditures, as are the acquisition of various sorts of weaponry. The amounts expended depend, in part, on the nature of the expected, foreseeable threats as well as on their probability of occurring. The higher the density of potential predators, human and non-human, the higher the security expenditures. But the higher these investment and operating expenditures, the lower the amount of resources left over to secure one's livelihood proper. A classic, but static, 'guns-versus-butter' trade-off ensues, and an equilibrium ratio of security to non-security spending must emerge, (s/ns)*. Similarly, a relative rise in the population density of predators reduces the available number of victims per predator. Here, too, an equilibrium ratio of predators to non-predators emerges, (p/np)*.

As circumstances change, that is as dynamics are introduced, so will the allocation of spending, or the location of living (which is a form of spending). For example, a rising population of non-predators would attract more predators so that the ratio (p/np) will be maintained at its equilibrium level, (p/np)*. Yet, the rise in the number of non-predators might permit them to pool resources into a security insurance fund — a county sheriff, say — such that the equilibrium ratio of (p/np) falls, i.e., fewer successful predators per non-predator. Consequently, the equilibrium (s/ns) also falls. In this 'wild west' scenario, what happens economically is a conversion from multiple, competitive sources of force — predators against non-predators, each investing in some form of potential force — to monopolization of force in the form of the county sheriff. Importantly, the economic *legitimization* of this monopolization of force is that the collective of non-predators now has at its disposal a larger share of its resources to expend on non-security items, such as education, health, and implements to improve the conditions under which it produces its livelihood, reproduction, and long-run survival.

But monopoly of force can corrupt. Even legitimized monopoly of force can corrupt, especially if there is no opportunity for *recall*, *replacement*, and *substitution* and no provision for *latent complementary force*. The mix between substitution and complementarity varies among societies. In some instances, as in the United States, regular, democratic elections make turnover of legislative, judicial, and executive branches of government (including the county sheriff) a routine feature, providing ample opportunity for substitution of the *instruments* or *agents* of monopoly force while maintaining the *institution* or *principals* of monopoly force. Of course there is potential for conflict between the agent (the county sheriff) and the principal (the voters) on account of asymmetric information and agency costs (incentives to shirk, incentives to be corrupted, supervision and monitoring costs, election costs, and so on). In any event, a coercively financed public monopoly (via taxation) can be complemented by private defensive and offensive security spending (from home security fences, home alarm systems, private bodyguards, and the like to spending on a private cabinet full of weaponry).

The degree of complementation varies across societies. Different countries choose different mixes. Most western European nations maintain higher levels of taxation and public security spending on law and order forces, thereby lowering the need for private security (defensive or offensive). In other countries — one thinks of South Africa and Russia — the public monopoly of force has been undermined to such an extent that prevalent private force reemerges by necessity. Lacking public force, part of private force converts to predatory purposes (a 'mafia') so that a state can slide back into the anarchic 'wild west' scenario. At the other end of the spectrum, corrupt public monopoly of force — in the absence of opportunities for substitution and complementarity — means that dictatorial regimes (autocratic, fascist, Stalinist) can arise, also disabling rather than enabling private prosperity. What is at issue is not privatization but the conditions surrounding the emergence and regulation of force, whatever the initial and the resulting public-private mix of force may be.

In this regard, it is relevant to refer to Olson's theory of dictatorship, democracy, and development.[19] Olson considers roving bandits (predators) extracting resources from peasants (non-predators). In an anarchic environment, non-predators possess few incentives to engage in productive work as their property and income is insecure. Moreover, on account of uncertainty there is no incentive to save and invest to increase future production and income. Consequently, short and long-run production and income is minimal, and there is little for a roving bandit to extract. Everybody, including the roving bandit, is miserable. Much better to become a stationary bandit, an autocrat, and to extract resources via taxation (engage in tax theft) while promising long-run protection from other bandits. This will reduce peasants' uncertainty, allow them to reallocate spending from security to non-security production, raise incomes, and leave them better off, even as this increases the total tax-theft the stationary bandit takes. Both the peasants and the stationary bandit are better off. If the promised protection is credible, peasants pay protection fees (taxes) to a stationary bandit in place of direct extraction suffered at the hand of a roving bandit. And if the promised protection is credible in the long-run, as it might in the case of autocratic *dynasties* ('long live the king'), peasants find it rational to save and invest to increase their future income — and to increase the future tax theft by the autocrat and his dynasty. In a word, at some point, it is wise to turn from resource-extraction via predation to resource-extraction via taxation and to turn from short-run predator to long-run protector. The protector autocrat has, in Olson's phrase, an 'encompassing interest' in providing the low-rivalry, low-exclusion public goods of security and force, obviating or at least drastically reducing the need for private security goods. As it is, we just traveled from the lower left-hand to the upper right-hand cell of the two-dimensional goods-space discussed earlier.

But the autocrat's monopoly on force can corrupt. For which intrinsic reason would an autocrat be interested in the long-run survival of his dynasty rather than merely being interested in his own maximum enjoyment? An autocrat who abandons long-run considerations is not interested in long-run optimal tax rates but in short-run maximal tax rates, just like a roving bandit. Olson also shows that the tax theft under democracy is smaller than the tax theft under autocracy. But the critical question is how, then, do societies such as modern-day democracies arise in the first place in which the low-cost, monopolized provision of a public good of security and force benefits all? According to Olson, "democracy would be most likely to emerge spontaneously when the individual or individuals or group leaders who orchestrated the overthrow of an autocracy could not establish another autocracy, much as they would gain from doing so."[20] Once established, Olson believes that democracies are maintained so long as competing constituencies cannot divide the domain into miniautocracies. As segregation is a powerful stimulant to secession into separate domains, so scrambled constituencies are at least one necessary guarantor of democracies. I would modestly add to Olson's theory that the key to maintaining democracies lies in repeated competition at the *institutional level* (an election system) to award a renewable or non-renewable but in any case temporary monopoly of force at the *instrumental level*, a monopoly that can be recalled and can, in any case, be credibly safeguarded by *complementary force* (e.g., free speech, freedom of the press, perhaps even regulated, private gun ownership), should the need arise.

Returning to the main theme of this essay, the unease over the use of mercenaries as economic agents by the governments (the principals) of Angola, Sierra Leone, and Papua New Guinea now takes on a somewhat different complexion. Does the use of whichever force — private or public — assist in the creation or maintenance of stable democracies? At the very least one ought to respect that Sandline International/Executive Outcomes signed a contract in 1993 with an acknowledged, if weak, democratically elected government in Angola, signed a contract in 1995 with a military regime in Sierra Leone that subsequently yielded to democratic elections in 1996, and signed a contract in 1997 with a democratically constituted government in Papua New Guinea. At a time when NATO bombing of Serbia is referred to as peacekeeping rather than war-making, it is not too far-fetched to similarly view private military companies as peacekeepers.[21] Once more, the issue is not privatization *per se*, but to bring private, military force within the realm of legitimately constituted force where one might define legitimate, taking Olson's cue, with respect to long-run economic prosperity.[22]

Fluid boundaries

Finally, look at monopoly and legitimacy from yet another economic angle: externalities, opportunity costs, and alliance theory. An externality is an exchange between any two parties that bestows benefits, or imposes costs, on a third party. For example, if I install a home security system in my home (and advertise this by pasting appropriate stickers on my windows and doors) then a private transaction took place between myself and the vendor. The vendor and I traded for mutual benefit. A negative external effect might occur in that potential predators (thieves) now are more likely than before to target my neighbours' homes. Wittingly or unwittingly I impose an uncompensated burden on my neighbours. Alternatively, clever neighbours might reproduce and also post the stickers (without buying the alarm system), making victimization less likely than before. In that case, my neighbours receive a low-cost benefit from my action for which they do not compensate me. My purchase of a home security system now yields a positive externality.

Suppose neighbours pool resources and form a neighbourhood watch program. Rather than each buying his own home security system, it is cheaper for each neighbour to agree to donate a certain amount of time patrolling a designated area around the neighbourhood. The same individual benefit is achieved at lower individual (and thus collective) cost. Shirking is difficult and monitoring easy since walking the beat is highly visible. The neighbours may also pitch in to buy a number of cell phones, one for each patroller on call. In essence, the neighbours agree to *voluntary taxation* of time and financial resources. Eventually, this encourages free-riding behaviour: even neighbours who fail to commit time and money most likely will still be protected by the neighbourhood watch program, at least to some degree. At some point, as the size and anonymity of the neighbourhood grows, free-riding (a form of predation on the resources others commit) will become so strong that the neighbourhood watch service ceases to exist, putting the entire neighbourhood at unmitigated risk. At this point, *involuntary taxation* becomes necessary. Every neighbour is coerced to contribute and from these contributions security services are bought. It is purely a matter of internal efficiency, or cost-effectiveness, whether the services bought are produced in-house ('public') or contracted with an outside firm ('private'). As discussed earlier, this make-or-buy decision raises questions about asymmetric information between the buyer and seller as well as questions of agency costs (e.g., monitoring costs) but this does not diminish the substantive point.

The foregoing paragraph finds an analog in the history and debate about 'voluntary' versus 'conscripted' versus modern 'volunteer' armies. Before the full emergence of the modern nation-state, people volunteered their time and lives — for patriotic or other reasons — to join voluntary armies to fight wars. Free-riding was high: all non-fighting men and their families received benefits at little or no cost. Eventually, a coercive system of conscripted, 'public' armed forces developed along with the consolidation of the notion of independent nation-states. More recently, an increasing number of countries is shifting toward volunteer armies, i.e., national armed forces whose members must be hired on the labour market at going wage-rates for the requisite level of skill and risk asked of them. Economically, this is more efficient (achieving the same national objective at lower national cost) than conscripting people. The very fact of conscription (and shirking or desertion) implies that the people concerned perceive better alternative uses for their talents than the services they are conscripted to render. The opportunity cost of conscription is high, namely the value of the goods and services these youngsters would have produced had they been permitted to pursue the alternative uses of their talents.[23] In contrast, those that do join a volunteer force at market wage-rates perceive that this is their best alternative use of their talents. The nation is better off even as it implies a thorough privatization of force.

Stepping up from the neighbourhood through the domestic to the international level, I would claim that the foregoing paragraphs find an analog in alliance-formation between and among nations.[24] Times were when European rulers formed short-lived, "one-war" alliances with each other for their own, rather than their subjects', benefits (Olsonian autocrats). This corresponds to voluntary national armies of old. In contrast, conscripted national armies correspond on the alliance-level to *rigid alliances*, whereas volunteer national armies correspond to *flexible alliances*. A rigid alliance, say the Warsaw Treaty Organization, does not take secession (withdrawal) lightly. Albania succeeded in a way, but (East) Germany, Poland, Hungary, and Czechoslovakia paid a heavy price for trying to go AWOL, as it were. In contrast, NATO might be considered a flexible alliance, sufficiently loosely structured and better able to withstand withdrawal and accession. Czechoslovakia's ambition to pursue "socialism with a human face" was crushed — an opportunity cost imposed on its people. In contrast, France was permitted to withdraw from NATO's integrated military structure to pursue alternative options, as was Greece following the 1974 Turkish-Greek conflagration over Cyprus —

opportunities were granted.[25]

There is of course one difference between national armed forces (whether conscripted or volunteer) and alliance forces (whether rigid or flexible) but it is a difference of degree rather than of kind: it concerns the degree of delegated authority over and authorization of force, i.e., the degree of sovereignty. Conscripted forces are not sovereign, but subject. Volunteer forces ("privates") are sovereign but contractually bound (as is their principal, the sovereign national government). In a rigid alliance, sovereign nations are *notionally sovereign agents* (or *dominated sovereign agents*) to a *dominant sovereign principal*, whereas in a flexible alliance, sovereign nations are sovereign agents indeed and a sovereign principal is absent from the constellation. Just as in the case of a neighbourhood *within* a nation-state, the flexible alliance, a neighbourhood *across* nation-states, faces a free-rider problem. The larger the cross-national neighbourhood, the smaller the share of the benefit received by each, and the higher the incentive to free-ride on the contributions others make. Moreover, the incentive structure is such that peripheral nations — those facing large exposed borders to non-alliance nations — wish to add themselves onto the alliance (Poland, Hungary, the Czech Republic) — while core nations within the alliance would wish to reduce their contributions (reduce their national military budgets) or not join in the first place, safely surrounded as they are by a ring of alliance members (Switzerland). Free-riding allows them to capitalize on opportunity costs, i.e., to cash in on "private," national benefits that await them by reallocating security and non-security spending (s/ns) in favour of non-security spending.[26]

Once again we see that that which is 'private' and that which is 'public' are merely changing, scaled subscripts (individual, neighbourhood, sub-national alliance, nation-state, international alliance) to the far more important consideration of who are the relevant decision-makers and security-consuming units, and what are the pertinent benefits, costs, and institutional constraints and opportunities, characterized by which set of changeable environmental factors, to each decision-maker. As in my 'wild west' scenario describing domestic force, what happens economically in a cross-national alliance is the conversion from multiple, competitive sources of force — each nation-state unto itself — to monopolization of force where a supra-nation alliance takes the role of the county sheriff. Importantly, the *legitimization* of this monopolization of force at the international level is exactly the same as that at the neighbourhood level, namely that the collective of actors now has at its disposal a larger share of its resources to expend on non-security items, such as education, health, and implements to improve the conditions under which its citizens produce, reproduce, and survive. And as in the neighbourhood analog, legitimization of monopoly of force needs to go hand-in-hand with possibilities for substitution and some degree of complementarity.

In conclusion

This essay takes a look at privatization of force from four economic points of view: (a) the make-or-buy or transaction cost theory; (b) the taxonomy of goods and public-choice theory; (c) Olson's theory of autocracy and democracy; and (d) the theory of externalities, opportunity costs, and alliance formation. The overriding theme that binds these views together, and the position that this article espouses, is this: in favour of the notion that individual decision-making and security-consuming units within families, firms, and government agencies consider individual benefits and costs as well as the benefits and costs of coalitions, clubs, and alliances (e.g., families, firms, and government agencies), economists have long ago abandoned the notion that inviolable boundaries demarcate 'private households' from 'private firms' and 'public households.' So, too, we must abandon notions of inviolable boundaries that demarcate nation-states from one another. We must abandon the notion that private security is somehow substantively different from public security — all security is private — and instead favour a theory of individual agents (people, communities, ethnic groups, nation-states, alliances) who consider individual benefits and costs as well as the benefits and costs of forming coalitions, clubs, and alliances for war or peacemaking.

The borders that experts in political science and international relations recognize are not the borders economists recognize. Instead, the boundaries that define the structures economists recognize are drawn by costs and benefits of the decision-making agent(s). This is not unlike biologists who, for a long time, stayed at the realm of analyzing well-defined, bounded organisms and only relatively recently extended their analytical tool chest "down" to the level of genes or replicating units (Richard Dawkins, *The Selfish Gene*, *The Extended Phenotype*) and then "up" again to the level of organs (Steven Pinker, *The Language Instinct*, *How the Mind Works*), back to organisms, and on to entire ecosystems (Edward O. Wilson, *Consilience*) in which the organisms formed by genes find phenotypic expression. I am suggesting that political science and international relations theory similarly need to abandon the nation-state and its boundaries and national forces as ultimate and sacrosanct analytical categories. Nation-states are coalitions, and coalitions are composites. What counts is to understand the components. Whether they then aggregate themselves in private or public forces is another, ultimately irrelevant matter. What I am arguing for, as most economists do, is a micro foundation of macro phenomena.[27]

Of course, all this is not to say that the concept of nation-state is superfluous, just as the concepts of organs and organisms or of private and public households are not superfluous. There are, after all, reasons why the observed macro phenomena coalesce in the way they do! But it is to say, in modern jargon, that the "deep" structure — the structure behind the structure — lies not at the level of organism, private or public household, or nation-state, but at the level of cost and benefit of the decision-making unit. One of the confusions and difficulties of practical diplomacy, it seems to me, stems precisely from putting on an official, nation-state face while simultaneously engaging with unofficial, sub-state interests. What I have argued in this essay is to suggest that an economic understanding of the perceived cost and benefits that drives individual actors can make worthwhile contributions to the analysis of force and perhaps help in the design of appropriate forms of 'private' or 'public' intervention (altering the set of constraints acting upon perceived benefits and costs) to achieve the ultimate objective that legitimizes force: safe, healthy, prosperous livelihoods for all.

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Notes

[1] See David Shearer, "Dial an Army," *World Today,* Vol. 53, Nos. 8-9, August 1997, pp. 203-205.

[2] For example, William Shawcross, "In Praise of Sandline," *Spectator* Vol. 281, No. 8869, 1 August 1998, p. 16.

[3] **Mercenary**: "designating a soldier serving in a foreign army;" "a professional soldier hired to serve in a foreign army". **Privateer**: "a privately owned and manned armed ship commissioned by a government in a war to attack and capture enemy ships, especially merchant ships." **Filibuster**: "an adventurer who engages in unauthorized warfare against a country with which his own country is at peace; specifically any of the 19th century US adventurers who led armed expeditions into Latin American countries." All definitions taken from *Webster's New World College Dictionary* (3rd ed.), New York, Macmillan USA, 1997.

[4] See www.eb.com, keyword "condottiere". *Encyclopedia Britannica Online* [accessed 14 July 1999]. This, of course, is the time-period when Niccolò Machiavelli (1469-1527) wrote *The Prince*.

[5] I am indebted to Ralph Rotte for suggesting this point to me.

[6] Melodie Andrews, *"Myrmidons From Abroad": The Role of The German Mercenary in The Coming of American Independence*. Ph.D. thesis, University of Houston, 1986.

[7] Dale Richard Steinhauer, *"Sogers": Enlisted Men in the U.S. Army, 1815-1860*. Ph.D. thesis, University of North Carolina at Chapel Hill, 1992.

[8] Robert M. Blackburn, *Mercenaries in Service to America: the "More Flags" Foreign Policy of the United States*, Ph.D. thesis, University of North Texas, 1992. Published in monograph form as *Mercenaries and Lyndon Johnson's "More Flags": The Hiring of Korean, Filipino and Thai Soldiers in the Vietnam War,* Jefferson, N.C., McFarland, 1994. For a review see William J. Duiker in *American Historical Review*, Vol. 100, No. 5, December 1995, p. 1728.

[9] Janice E. Thomson, *The State, Sovereignty And International Violence: The Institutional And Normative Basis of State Control Over External Violence,* Ph.D. thesis, Stanford University, 1988. Some of the themes are also addressed in Janice E. Thomson, *Mercenaries, Pirates, and Sovereigns: State Building and Extraterritorial Violence in Early Modern Europe,* Princeton, NJ, Princeton University Press, 1996.

[10] The literature seems fairly agreed that Executive Outcomes (EO) activities brought UNITA to sign the Lusaka peace accord of 1994. It was after EO left, under US pressure on Angola, that UNITA caught second wind, reneged on the peace accord, and renewed the civil war.

[11] *The Wall Street Journal,* 14 April 1999, p. A21.

[12] Rathnell, *Cambridge Review of International Affairs,* Winter/Spring 1998, pp. 199-211.

[13] *The Economist*, 19 April 1997, pp. 21-24.

[14] It is important to recognize that the two-by-two display treats the ideal-types of goods and services as *discrete* categories. The matrix therefore does not allow for *continuous* variables. This defect is easily remedied by thinking of the two-by-two matrix as a graph whose origin is the point of intersection of 'high exclusion' and 'high rivalry.' Along the vertical axis, high exclusion gradually becomes low exclusion, and along the horizontal axis high rivalry gradually becomes low rivalry. In this fashion, the discrete categories are transformed into a continuous two-dimensional goods space. Instead of four ideal-types, the continuous case permits the consideration of infinite intermediate cases.

[15] The concept of force thinning is due to Todd Sandler, "Impurity of Defense: An Application to the Economics of Alliances." *Kyklos*, Vol. 30, No. 3, 1977, pp. 443-460.

[16] Hershel Grossman, "Insurrections," chapter 8 in *Handbook of Defense Economics*, edited by Keith Hartley and Todd Sandler, Amsterdam, Elsevier, 1995, may be of interest to some readers.

[17] The 'walk around good-space' also demonstrates, incidentally, that economists do *not*, as non-economists sometimes claim, necessarily rely on the assumption of stable institutions and enforced rights in private property when analyzing markets and efficiency. Institutions are not given; they are to be explained. There exists, by now, a huge literature on the 'new institutional economics.' See, e.g., the roundtable discussion in the *American Economic Review*, Vol. 88, No. 2, May 1998, pp. 72-89 (with Ronald Coase, Oliver Williamson, Avner Greif, and Victor Nee) and Geoffrey M. Hodgson, "The Approach of Institutional Economics," *Journal of Economic Literature*, Vol. 36, No. 1, March 1998, pp. 166-192.

[18] The standard monopoly model assumes the absence of economies of scale, scope, and learning, i.e., the absence of natural-monopoly conditions.

[19] The narrative is in Mancur Olson, "Dictatorship, Democracy, and Development," *American Political Science Review*, Vol. 87, No. 3, September 1993, pp. 567-576. Refinements and the mathematics are in Martin C. McGuire and Mancur Olson, "The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force," *Journal of Economic Literature*, Vol. 34, No. 1, March 1996, pp. 72-96. Also see Ronald Wintrobe, *The Political Economy of Dictatorship,* (Cambridge: Cambridge University Press, 1998).

[20] Olson, 1993, p. 573.

[21] See David Shearer, "Outsourcing War," *Foreign Policy*, No. 112, Fall 1998, pp. 68-72 and his "Private Armies and Military Intervention," *Adelphi Paper No. 316*, London: International Institute for Strategic Studies, February 1998. On the blur between war-making and peacekeeping, see, e.g., Daniel Burton-Rose, "Corporate Soldiers: The U.S. Government Privatizes the Use of Force," *Multinational Monitor*, Vol. 20, No. 3, March 1999, pp. 17-19.

[22] Legitimate force would of course include elements of accountability. On the lack of accountability that permits the US government to hire a private military company to prop up non-democratic Saudi Arabia, see, e.g., William D. Hartung, "Mercenaries Inc.," *Progressive*, Vol. 60, No. 4, April 1996, pp. 26-28.

[23] The opportunity cost might not lie, and perhaps should not be measured, in the *year(s) of conscription*, i.e., in the difference between earnings during conscription and market-earnings in place of conscription. Instead, the

more significant opportunity cost may be that youth's entire work career is cut short by one or more years. In that case, the opportunity cost should be measured by the foregone earnings of the *last career year(s)* which, presumably, is much higher in value than the first career year(s). I am grateful to Tilman Brück for alerting me to this point.

[24] On the economic theory of alliances see, e.g., Todd Sandler and Keith Hartley, *The Political Economy of NATO*, Cambridge, Cambridge University Press, 1999, and the literature reviewed therein.

[25] This is similar to the painfully slow construction of the EU and its monetary union where participating nation-states can opt in and out of certain provisions.

[26] On the benefits of alliances, and its consequences, see Todd Sandler, "Alliance Formation, Expansion, and the Core," forthcoming in *Journal of Conflict Resolution*, Vol. 43, No. 6, December 1999.

[27] See, e.g., Thomas Schelling, *Micromotives and Macrobehavior*, New York, W. W. Norton, 1978.