Now it is fairly certain that someone will argue that while one would not doubt what has been stated so far, things would in fact be different and the deficiency of a pure market system would come to light as soon as one paid attention to the special case of monopolistic production. And by necessity, monopolistic production would have to arise under capitalism, at least in the long run. Not only Marxist critics but orthodox economic theorists as well make much of this alleged counter-argument.[160] In answer to this challenge four points will be made in turn. First, available historical evidence shows that contrary to these critics' thesis, there is no tendency toward increased monopoly under an unhampered market system. In addition, there are theoretical reasons that would lead one to doubt that such a tendency could ever prevail on a free market. Third, even if such a process of increasing monopolization should come to bear, for whatever reason, it would be harmless from the point of view of consumers provided that free entry into the market were indeed ensured. And fourth, the concept of monopoly prices as distinguished from and contrasted to competitive prices is illusory in a capitalist economy.

Regarding historical evidence, if the thesis of the critics of capitalism were true, then one would have to expect a more pronounced tendency toward monopolization under relatively freer, unhampered, unregulated laissez-faire capitalism than under a relatively more heavily regulated system of "welfare" or "social" capitalism. However, history provides evidence of precisely the opposite result. There is general agreement regarding the assessment of the historical period from 1867 to World War I as being a relatively more capitalist period in history of the United States, and of the subsequent period being one of comparatively more and increasing business regulations and welfare legislation. However, if one looks into the matter one finds that there was not only less development toward monopolization and concentration of business taking place in the first period than in the second but also that during the first period a constant trend towards more severe competition with

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160 On this and the following cf. L. v. Mises, Socialism, Indianapolis, 1981, part 3.2.

continually falling prices for almost all goods could be observed.[161] And this tendency was only brought to a halt and reversed when in the course of time the market system became more and more obstructed and destroyed by state intervention. Increasing monopolization only set in when leading businessmen became more successful at persuading the government to interfere with this fierce system of competition and pass regulatory legislation, imposing a system of "orderly" competition to protect existing large firms from the so-called cutthroat competition continually springing up around them.[162] G. Kolko, a left-winger and thus certainly a trustworthy witness, at least for the critics from the left, sums up his research into this question as follows

> There was during this [first] period a dominant trend toward growing competition. Competition was unacceptable to many key business and financial leaders, and the merger movement was to a large extent a reflection of voluntary, unsuccessful business effects to bring irresistible trends under control … As new competitors sprang up, and as economic power was diffused throughout an expanding nation, it became apparent to many important businessmen that only the national government could [control and stabilize] the economy … Ironically, contrary to the consensus of historians, it was not the existence of monopoly which caused the government to intervene in the economy, but the lack of it.[163]

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161 Thus states J. W. McGuire, Business and Society, New York, 1963, pp. 38-39: "From 1865 to 1897, declining prices year after year made it difficult for businessmen to plan for the future. In many areas new railroad links had resulted in a nationalization of the market east of the Mississippi, and even small concerns in small towns were forced to compete with other, often larger firms located at a distance. At the same time there were remarkable advances in technology and productivity. In short it was a wonderful era for the consumer and a frightful age for the producers especially as competition became more and more severe."

162 Cf. on this G. Kolko, The Triumph of Conservatism, Chicago, 1967; and Railroads and Regulation, Princeton, 1965; J. Weinstein, The Corporate Ideal in the Liberal State, Boston, 1968; M. N. Rothbard and R. Radosh (eds.), A New History of Leviathan, New York, 1972.

163 G. Kolko, The Triumph of Conservatism, Chicago, 1967, pp.4-5; cf. also the investigations of M. Olson, The Logic of Collective Action, Cambridge, 1965, to the

In addition, these findings, which stand in clear contradiction to much of the common wisdom on the matter, are backed by theoretical considerations.[164] Monopolization means that some specific factor of production is withdrawn from the market sphere. There is no trading of the factor, but there is only the owner of this factor engaging in restraint of trade. Now if this is so, then no market price exists for this monopolized production factor. But if there is no market price for it, then the owner of the factor can also no longer assess the monetary costs involved in withholding it from the market and in using it as he happens to use it. In other words, he can no longer calculate his profits and make sure, even if only ex post facto, that he is indeed earning the highest possible profits from his investments. Thus, provided that the entrepreneur is really interested in making the highest possible profit (something, to be sure, which is always assumed by his critics), he would have to offer the monopolized production factors on the market continually to be sure that he was indeed using them in the most profitable way and that there was no other more lucrative way to use them, so as to make it more profitable for him to sell the factor than keep it. Hence, it seems, one would reach the paradoxical result that in order to maximize his profits, the monopolist must have a permanent interest in discontinuing his position as the owner of a production factor withheld from the market and, instead, desire its inclusion in the market sphere.

Furthermore, with every additional act of monopolization the problem for the owner of monopolized production factors—i.e., that because of the impossibility of economic calculation, he can no longer make sure that those factors are indeed used in the most profitable way—becomes ever more acute. This is so, in particular,

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effect that mass organizations (in particular labor unions), too, are not market phenomena but owe their existence to legislative action.

[164] On the following cf. L. v. Mises, Socialism, Indianapolis, 1981, part 3.2; and Human Action, Chicago, 1966, Chapters 25-26; M. N. Rothbard, Man, Economy and State, Los Angeles, 1970, pp.544ff; pp.585ff; and "Ludwig von Mises and Economic Calculation under Socialism," in: L. Moss (ed.), The Economics of Ludwig von Mises, Kansas City, 1976, pp. 75-76.

because realistically one must assume that the monopolist is not only not omniscient but that his knowledge regarding future competing goods and services by the consumers in future markets becomes more and more limited as the process of monopolization advances. As production factors are withdrawn from the market, and as the circle of consumers served by the goods produced with these factors widens, it will be less likely that the monopolist, unable to make use of economic calculation, can remain in command of all the relevant information needed to detect the most profitable uses for his production factors. Instead, it becomes more likely in the course of such a process of monopolization, that other people or groups of people, given their desire to make profits by engaging in production, will perceive more lucrative ways of employing the monopolized factors.[165] Not necessarily because they are better entrepreneurs, but simply because they *occupy* different positions in space and time and thus become increasingly aware of entrepreneurial opportunities which become more and more difficult and costly for the monopolist to detect with every new step toward monopolization. Hence, the likelihood that the monopolist will be persuaded to sell his monopolized factors to other producers—*nota bene*: for the purpose of thereby increasing his profits—increases with every additional step toward monopolization.[166]

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165 Cf. F. A. Hayek, Individualism and Economic Order, Chicago, 1948, esp. Chapter 9; I. Kirzner, Competition and Entrepreneurship, Chicago, 1973.

166 Regarding large-scale ownership, in particular of land, Mises observes that it is normally only brought about and upheld by nonmarket forces: by coercive violence and a state-enforced legal system outlawing or hampering the selling of land. "Nowhere and at no time has the large scale ownership of land come into being through the working of economic forces in the market. Founded by violence, it has been upheld by violence and that alone. As soon as the latifundia are drawn into the sphere of market transactions they begin to crumble, until at last they disappear completely … . That in a market economy it is difficult even now to uphold the latifundia, is shown by the endeavors to create legislation institutions like the 'Fideikommiss' and related legal institutions such as the English 'entail' … . Never was the ownership of the means of production more closely concentrated than at the time of Pliny, when half the province of Africa was owned by six people, or in the day of the Merovingian, when the church possessed the greater part of all French soil. And in no part of the world is there less large-scale land ownership than in capitalist North America," Socialism, Indianapolis, 1981, pp.325–326.

Now, let us assume that what historical evidence as well as theory proves to be unlikely happens anyway, for whatever reason. And let us assume straightaway the most extreme case conceivable: there is only one single business, one super-monopolist so to speak, that provides all the goods and services available on the market, and that is the sole employer of everyone. What does this state of affairs imply regarding consumer satisfaction, provided, of course, as assumed, that the super-monopolist has acquired his position and upholds it without the use of aggression? For one thing, it evidently means that no one has any valid claims against the owner of this firm; his enterprise is indeed fully and legitimately his own. And for another thing it means that there is no infringement on anyone's right to boycott any possible exchange. No one is forced to work for the monopolist or buy anything from him, and everyone can do with his earnings from labor services whatever he wants. He can consume or save them, use them for productive or nonproductive purposes, or associate with others and combine their funds for any sort of joint venture. But if this were so, then the existence of a monopoly would only allow one to say this: the monopolist clearly could not see any chance of improving his income by selling all or part of his means of production, otherwise he would do so. And no one else could see any chance of improving his income by bidding away factors from the monopolist or by becoming a capitalist producer himself through original saving, through transforming existing nonproductively used private wealth into productive capital, or through combining funds with others, otherwise it would be done. But then, if no one saw any chance of improving his income without resorting to aggression, it would evidently be absurd to see anything wrong with such a super-monopoly. Should it indeed ever come into existence within the framework of a market economy, it would only prove that this self-same super-monopolist was indeed providing consumers with the most urgently wanted goods and services in the most efficient way.

Yet the question of monopoly prices remains.[167] Doesn't a monopoly price imply a suboptimal supply of goods to consumers, and isn't there then an important exception from the generally superior economic working of capitalism to be found here? In a way this question has already been answered by the above explanation that even a super-monopolist establishing itself in the market cannot be considered harmful for consumers. But in any case, the theory that monopoly prices are (allegedly) categorically different from competitive prices has been presented in different, technical language and hence deserves special treatment. The result of this analysis, which is hardly surprising now, only reinforces what has already been dis covered: monopoly does not constitute a special problem forcing anyone to make qualifying amendments to the general rule of a market economy being necessarily more efficient than any socialist or statist system. What is the definition of "monopoly price" and, in contrast to it, of "competitive price" according to economic orthodoxy (which in the matter under investigation includes the so-called Austrian school of economics as represented by L. v. Mises)? The following definition is typical:

> Monopoly is a prerequisite for the emergence of monopoly prices, but it is not the only prerequisite. There is a further condition required, namely a certain shape of the demand curve. The mere existence of monopoly does not mean anything in this regard. The publisher of a copyrighted book is a monopolist. But he may not be able to sell a single copy, no matter how low the price he asks. Not every price at which a monopolist sells a monopolized commodity is a monopoly price. Monopoly prices are only prices at which it is more advantageous for the monopolist to restrict the total amount

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167 Cf. on the following in M. N. Rothbard, Man, Economy and State, Los Angeles, 1970, Chapter 10, esp. pp.586ff; also W. Block, "Austrian Monopoly Theory. A Critique," in: Journal of Libertarian Studies, 1977.

> to be sold than to expand its sales to the limit which a competitive market would allow.[168]

However plausible this distinction might seem, it will be argued that neither the producer himself nor any neutral outside observer could ever decide if the prices actually obtained on the market were monopoly or competitive prices, based on the criterion "restricted versus unrestricted supply' as offered in the above definition. In order to understand this, suppose a monopolist producer in the sense of "a sole producer of a given good" exists. The question of whether or not a given good is different from or homogeneous to other goods produced by other firms is not one that can be decided based on a comparative analysis of such goods in physical or chemical terms ex ante, but will always have to be decided ex post facto, on future markets, by the different or equal treatment and evaluations that these goods receive from the buying public. Thus every producer, no matter what his product is, can be considered a potential monopolist in this sense of the term, at the point of decision making. What, then, is the decision with which he and every producer is faced? He must decide how much of the good in question to produce in order to maximize his monetary income (with other, nonmonetary income considerations assumed to be given). To be able to do this he must decide how the demand curve for the product concerned will be shaped when the products reach the market, and he must take into consideration the various production costs of producing various amounts of the good to be produced. This done, he will establish the amount to be produced at that point where returns from sales, i.e., the amount of goods sold times price, minus production costs involved in producing that amount, will reach a maximum. Let us assume this happens and the monopolist also happens to be correct in his evaluation of the future demand curve in that the price he seeks for his products indeed clears the market. Now the question is, is this market price a monopoly or a competitive price? As M. Rothbard realized

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168 L.v. Mises, Human Action, Chicago, 1966, p.359; cf. also any current textbook, such as P. Samuelson, Economics, New York, 1976, p.500.

in his path-breaking but much neglected analysis of the monopoly problem, there is no way of knowing. Was the amount of the good produced "restricted" in order to take advantage of inelastic demand and was a monopoly price thus reaped, or was the price reached a competitive one established in order to sell an amount of goods that was expanded "to the limit that a competitive market would allow"? There is no way to decide the matter.[169] Clearly, every producer will always try to set the quantity produced at a level above which demand would become elastic and would hence yield lower total returns to him because of reduced prices paid. He thus engages in restrictive practices. At the same time, based on his estimate of the shape of future demand curves, every producer will always try to expand his production of any good up to the point at which the marginal cost of production (that is, the opportunity cost of not producing a unit of an alternative good with the help of scarce production factors now bound up in the process of producing another unit of x) equals the price per unit of x that one expects to be able to charge at the respective level of supply. Both restriction and expansion are part of profit-maximizing and market-price formation, and neither of these two aspects can be separated from the other to make a valid distinction between monopolistic and competitive action.

Now, suppose that at the next point of decision making the monopolist decides to reduce the output of the good produced from a previously higher to a new lower level, and assume that he indeed succeeds in securing higher total returns now than at the earlier point in time. Wouldn't this be a clear instance of a monopoly price? Again, the answer must be no. And this time the reason would be the indistinguishability of this reallocational "restriction" from a "normal" reallocation that takes account of changes in demand. Every event that can be interpreted in one way can also be interpreted in the other, and no means for deciding the matter exist, for once again both are essentially two aspects of one and the

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169 Cf. M. N. Rothbard, Man, Economy and State, Los Angeles, 1970, Chapter 10, esp. pp.604-614.

same thing: of action, of choosing. The same result, i.e., a restriction in supply coupled not only with higher prices but with prices high enough to increase total revenue from sales, would be brought about if the monopolist who, for example, produces a unique kind of apples faces an increase in the demand for his apples (an upward shift in the demand curve) and simultaneously an even higher increase in demand (an even more drastic upward shift of the demand curve) for oranges. In this situation he would reap greater returns from a reduced output of apples, too, because the previous market price for his apples would have become a subcompetitive price in the meantime. And if he indeed wanted to maximize his profits, instead of simply expanding apple production according to the increased demand, he now would have to use some of the factors previously used for the production of apples for the production of oranges, because in the meantime changes in the system of relative prices would have occurred. However, what if the monopolist who restricts apple production does not engage in producing oranges with the now available factors, but instead does nothing with them? Again, all that this would indicate is that besides the increase in demand for apples, in the meantime an even greater increase in the demand for yet another good—leisure (more precisely, the demand for leisure by the monopolist who is also a consumer)-had taken place. The explanation for the restricted apple supply is thus found in the relative price changes of leisure (instead of oranges) as compared with other goods.

Neither from the perspective of the monopolist himself nor from that of any outside observer could restrictive action then be distinguished conceptually from normal reallocations which simply follow anticipated changes in demand. Whenever the monopolist engages in restrictive activities which are followed by higher prices, by definition he must use the released factors for another more highly valued purpose, thereby indicating that he adjusts to changes in relative demand. As M. Rothbard sums up,

> We cannot use "restriction of production" as the test of monopoly vs. competitive price. A movement from

> a sub-competitive to a competitive price also involves a restriction of production of this good, coupled, of course, with an expansion of production in other lines by the released factors. There is no way whatever to distinguish such a restriction and corollary expansion from the alleged "monopoly price" situation. If the restriction is accompanied by increased leisure for the owner of the labor factor rather than increased production of some other good on the market, it is still the expansion of the yield of a consumer good—leisure. There is still no way of determining whether the "restriction" resulted in a "monopoly" or a "competitive" price or to what extent the motive of increased leisure was involved. To define a monopoly price as a price attained by selling a smaller quantity of a product at a higher price is therefore meaningless, since the same definition applies to the "competitive" price as compared with a subcompetitive price.[170]

The analysis of the monopoly question, then, provides no reason whatsoever to modify the description given above of the way a pure market economy normally works and its superiority over any sort of socialist or statist system of production. Not only is a process of monopolization highly unlikely to occur, empirically as well as theoretically, but even if it did, from the point of view of the consumers it would be harmless. Within the framework of a market system a restrictive monopolistic price could not be distinguished from a normal price hike stemming from higher demand and changes in relative prices. And as every restrictive action is simultaneously expansionary, to say that the curtailment of production in one production line coupled with an increase in total revenue implies a misallocation of production factors and an exploitation of consumers is simply nonsense. The misunderstanding involved in such reasoning has been accurately revealed in the following passage from one of L. v. Mises' later works in which he implicitly refutes his own above-cited orthodox position regarding the monopoly-price problem. He states:

[170] M. N. Rothbard, Man, Economy and State, Los Angeles, 1970, p.607.

> An entrepreneur at whose disposal are 100 units of capital employs, for instance, 50 units for the production of p and 50 units for the production of q. If both lines are profitable, it is odd to blame him for not having employed more, e.g., 75 units, for the production of p. He could increase the production of p only by curtailing correspondingly the production of q. But with regard to q the same fault could be found with the grumblers. If one blames the entrepreneur for not having produced more p, one must blame him also for not having produced more q. This means: one blames the entrepreneur for the fact that there is scarcity of factors of production and that the earth is not a land of Cockaigne.[171]

The monopoly problem as a special problem of markets requiring state action to be resolved does not exist.[172] In fact, only when the state enters the scene does a real, nonillusory problem of monopoly and monopoly prices emerge. The state is the only enterprise whose prices and business practices can be conceptually distinguished from all other prices and practices, and whose prices and practices can be called ‘too high” or “exploitative” in a completely objective, nonarbitrary way. These are prices and practices which consumers are not voluntarily willing to pay and accept, but which instead are forced upon them through threats of violence. And only for so privileged an institution as the state is it also normal to expect and to find a permanent process of increasing monopolization and concentration. As compared to all other enterprises, which are subject to the control of voluntarily buying or not-buying consumers, the enterprise “state” is an organization that can tax people and need not wait until they accept the tax, and

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171 L.v. Mises, “Profit and Loss,” in: Planning for Freedom, South Holland, 1974, p.116.

172 In fact, historically, governmental anti-trust policy has almost exclusively been a practice of providing less successful competitors with the legal tools needed to hamper the operation of their more successful rivals. For an impressive assembly of case studies to this effect cf. D. Armentano, Antitrust and Monopoly, New York, 1982; also Y. Brozen, Is Government the Source of Monopoly? And Other Essays, San Francisco, 1980.

can impose regulations on the use people make of their property without gaining their consent for doing so. This evidently gives the state, as compared to all other institutions, a tremendous advantage in the competition for scarce resources. If one only assumes that the representatives of the state are as equally driven by the profit motive as anyone else, it follows from this privileged position that the organization "state" must have a relatively more pronounced tendency toward growth than any other organization. And indeed, while there was no evidence for the thesis that a market system would bring about a tendency toward monopolistic growth, the thesis that a statist system would do so is amply supported by historical experience.

Chapter 10

Capitalist Production and the Problem of Public Goods

We have tried to demolish socialism on the economic as well as moral fronts. Having reduced it to a phenomenon of exclusively socio-psychological significance, i.e., a phenomenon for whose existence neither good economic nor good moral reasons can be found, its roots were explained in terms of aggression and the corruptive influence that a policy of *divide et impera* exercises on public opinion. The last chapter returned to economics in order to give the final blows to socialism by engaging in the constructive task of explaining the workings of a capitalist social order as socialism's economically superior rival, ready for adoption at any time. In terms of consumer evaluations, capitalism was indicated as being superior with respect to the allocation of production factors, the quality of the output of goods produced, and the preservation of values embodied in capital over time. The so-called monopoly problem allegedly associated with a pure market system was in fact demonstrated not to constitute any special problem at all. Rather, everything said about the normally more efficient functioning of capitalism is true also with respect to monopolistic producers, as long as they are indeed subject to the control of voluntary purchases or voluntary abstentions from purchases by consumers.

This final chapter will analyze an even more frequently cited special case which allegedly requires one to make qualifying amendments regarding the thesis of the economic superiority of capitalism: the case of the production of so-called public goods. Considered in particular will be the production of security.

If what has been stated in the foregoing chapter regarding the working of a market economy is true, and if monopolies are completely harmless to consumers as long as the consumers have the right to boycott them and freely enter the market of competing producers themselves, then one must draw the conclusion that for economic as well as moral reasons, the production of all goods and services should be left in private hands. And in particular it follows that even the production of law and order, justice and peace—those things that one has come to think of as being the most likely candidates for state-provided goods for reasons explained in Chapter 8—should be provided privately, by a competitive market. This indeed is the conclusion that G. de Molinari, a renowned Belgian economist, formulated as early as 1849—at a time when classical liberalism was still the dominant ideological force, and "economist" and "socialist" were generally (and rightly so) considered to be antonyms:

> If there is one well established truth in political economy, it is this: That in all cases, for all commodities that serve to provide for the tangible or intangible need of the consumer, it is in the consumer's best interest that labor and trade remain free, because the freedom of labor and trade have as their necessary and permanent result the maximum reduction of price. And this: That the interests of the consumer of any commodity whatsoever should always prevail over the interests of the producer. Now, in pursuing these principles, one arrives at this rigorous conclusion: That the production of security should, in the interest of consumers of this intangible commodity, remain subject to the law of free competition. Whence it follows: That no government should have the right to prevent another government from going into competition with it,

or require consumers of security to come exclusively to it for this commodity.[173]

And he comments on this argument by saying: “Either this is logical and true, or else the principles on which economic science is based are invalid.”[174]

There is apparently only one way out of this unpleasant (for all socialists, that is) conclusion: to argue that there are particular goods to which for some special reasons the above economic reasoning does not apply. It is this that the so-called public goods theorists are determined to prove.[175] However, we will demonstrate that in fact no such special goods or special reasons exist, and that the production of security in particular does not pose any problem different from that of the production of any other good or service, be it houses, cheese, or insurance. In spite of its many followers, the whole public goods theory is faulty, flashy reasoning, ridden with internal inconsistencies, nonsequiturs, appealing to and playing on popular prejudices and assumed beliefs, but with no scientific merit whatsoever.[176]

What, then, does the “escape route” that socialist economists have found in order to avoid drawing Molinari’s conclusion look like? Since Molinari’s time it has become increasingly common to answer the question of whether there are goods to which different sorts of economic analyses apply in the affirmative. As a matter of

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173 G. de Molinari, “The Production of Security,” Center for Libertarian Studies, Occasional Paper No. 2, New York, 1977, p.3.

174 Ibid., p.4.

175 For various approaches of public goods theorists cf. J. Buchanan and G. Tullock, The Calculus of Consent, Ann Arbor, 1962; J. Buchanan, The Public Finances, Homewood, 1970; and The Limits of Liberty, Chicago, 1975; G. Tullock, Private Wants, Public Means, New York, 1970; M. Olson, The Logic of Collective Action, New York, 1965; W. Baumol, Welfare Economics and the Theory of the State, Cambridge, 1952.

176 Cf. on the following M. N. Rothbard, Man, Economy and State, Los Angeles, 1970, pp. 883ff; and “The Myth of Neutral Taxation,” in: Cato Journal, 1981; W. Block, “Free Market Transportation: Denationalizing the Roads,” in: Journal of Libertarian Studies, 1979; and “Public Goods and Externalities: The Case of Roads,” in: Journal of Libertarian Studies, 1983.

fact, nowadays it is almost impossible to find a single economic textbook that does not make and stress the vital importance of the distinction between private goods, for which the truth of the economic superiority of a capitalist order of production is generally admitted, and public goods, for which it is generally denied.[177] Certain goods or services, and among them, security, are said to have the special characteristic that their enjoyment cannot be restricted to those persons who have actually financed their production. Rather, people who have not participated in their financing can draw benefits from them, too. Such goods are called public goods or services (as opposed to private goods or services, which exclusively benefit those people who actually paid for them). And it is due to this special feature of public goods, it is argued, that markets cannot produce them, or at least not in sufficient quantity or quality, and hence compensatory state action is required.[178] The examples given by different authors for alleged public goods vary widely. Authors often classify the same good or services differently, leaving almost

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177 Cf. for instance, W. Baumol and A. Blinder, Economics, Principles and Policy, New York, 1979, Chapter 31.

178 Another frequently used criterion for public goods is that of "non-rivalrous consumption." Generally, both criteria seem to coincide: when free riders cannot be excluded, nonrivalrous consumption is possible; and when they can be excluded, consumption becomes rivalrous, or so it seems. However, as public goods theorists argue, this coincidence is not perfect. It is, they say, conceivable that while the exclusion of free riders might be possible, their inclusion might not be connected with any additional cost (the marginal cost of admitting free riders is zero, that is), and that the consumption of the good in question by the additionally admitted free rider will not necessarily lead to a subtraction in the consumption of the good available to others. Such a good would be a public good, too. And since exclusion would be practiced on the free market and the good would not become available for nonrivalrous consumption to everyone it otherwise could—even though this would require no additional costs—this, according to statist- socialist logic, would prove a market failure, i.e., a suboptimal level of consumption. Hence, the state would have to take over the provision of such goods. (A movie theater, for instance, might only be half-full, so it might be "costless" to admit additional viewers free of charge, and their watching the movie also might not affect the paying viewers; hence the movie would qualify as a public good. Since, however, the owner of the theater would be engaging in exclusion, instead of letting free riders enjoy a "costless" performance, movie theaters would be ripe for nationalization.) On the numerous fallacies involved in defining public goods in terms of nonrivalrous consumption cf. notes 12 and 16 below.

no classification of a particular good undisputed.[179] This clearly foreshadows the illusory character of the whole distinction. Nonetheless, some examples that enjoy particularly popular status as public goods are the fire brigade that stops a neighbor's house from catching fire, thereby letting him profit from my fire brigade, even though he did not contribute anything to financing it; or the police that by walking around my property scare away potential burglars from my neighbor's property as well, even if he did not help finance the patrols; or the lighthouse, a particularly dear example to economists,[180] that helps ships find their way, even though they did not contribute a penny to its construction or upkeep.

Before continuing with the presentation and critical examination of the theory of public goods let us investigate how useful the distinction between private and public goods is in helping decide what should be produced privately and what by the state or with state help. Even the most superficial analysis could not fail to point out that using this alleged criterion, rather than presenting a sensible solution, would get one into deep trouble. While at least at first glance it seems that some of the state-provided goods and services might indeed qualify as public goods, it certainly is not obvious how many of the goods and services that are actually produced by states could come under the heading of public goods. Railroads, postal services, telephone, streets, and the like seem to be goods whose usage can be restricted to the persons who actually finance them, and hence appear to be private goods. And the same seems to be the case regarding many aspects of the multidimensional good "security": everything for which insurance could be taken out would have to qualify as a private good. Yet this does not suffice. Just as a lot of state-provided goods appear to be private goods, so many privately produced goods seem to fit in the category of a public good. Clearly my neighbors would profit from my

179 Cf. on this W. Block, "Public Goods and Externalities," in: Journal of Libertarian Studies, 1983.

180 Cf. for instance, J. Buchanan, The Public Finances, Homewood, 1970, p.23; P. Samuelson, Economics, New York, 1976, p.160.

well-kept rose garden—they could enjoy the sight of it without ever helping me garden. The same is true of all kinds of improvements that I could make on my property that would enhance the value of neighboring property as well. Even those people who do not throw money in his hat could profit from a street musician's performance. Those fellow travellers on the bus who did not help me buy it profit from my deodorant. And everyone who ever comes into contact with me would profit from my efforts, undertaken without their financial support, to turn myself into a most lovable person. Now, do all these goods—rose gardens, property improvements, street music, deodorants, personality improvements—since they clearly seem to possess the characteristics of public goods, then have to be provided by the state or with state assistance?

As these latter examples of privately produced public goods indicate, there is something seriously wrong with the thesis of public goods theorists that these goods cannot be produced privately but instead require state intervention. Clearly they *can* be provided by markets. Furthermore, historical evidence shows us that all of the alleged public goods which states now provide had at some time in the past actually been provided by private entrepreneurs or even today are so provided in one country or another. For example, the postal service was once private almost everywhere; streets were privately financed and still are sometimes; even the beloved lighthouses were originally the result of private enterprise;[181] private police forces, detectives, and arbitrators exist; and help for the sick, the poor, the elderly, orphans, and widows has been a traditional field for private charity organizations. To say, then, that such things cannot be produced by a pure market system is falsified by experience one hundredfold.

Apart from this, other difficulties arise when the public-private goods distinction is used to decide what to leave to the market and what not. What, for instance, if the production of so-called

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[181] Cf. R. Coase, "The Lighthouse in Economics," in: Journal of Law and Economics, 1974.

public goods did not have positive but negative consequences for other people, or if the consequences were positive for some and negative for others? What if the neighbor whose house was saved from burning by my fire brigade had wished (perhaps because he was overinsured) that it had burned down, or my neighbors hate roses, or my fellow travellers find the scent of my deodorant disgusting? In addition, changes in the technology can change the character of a given good. For example, with the development of cable TV, a good that was formerly (seemingly) public has become private. And changes in the laws of property—of the appropriation of property—can have the very same effect of changing the public-private character of a good. The lighthouse, for instance, is a public good only insofar as the sea is publicly (not privately) owned. But if it were permitted to acquire pieces of the ocean as private property, as it would be in a purely capitalist social order, then as the lighthouse only shines over a limited territory, it would clearly become possible to exclude nonpayers from the enjoyment of its services.

Leaving this somewhat sketchy level of discussion and looking into the distinction between private and public goods more thoroughly, it turns out to be a completely illusory distinction. A clear-cut dichotomy between private and public goods does not exist, and this is essentially why there can be so many disagreements on how to classify given goods. All goods are more or less private or public and can—and constantly do—change with respect to their degree of privateness/publicness with people's changing values and evaluations, and with changes in the composition of the population. They never fall, once and for all, into either one or the other category. In order to recognize this, one must only recall what makes something a good. For something to be a good it must be realized and treated as scarce by someone. Something is not a good-as-such, that is to say, but goods are goods only in the eyes of the beholder. Nothing is a good without at least one person subjectively evaluating it as such. But then, since goods are never goods—as-such—since no physico-chemical analysis can identify something as an economic good—there is clearly no fixed, objective criterion for classifying goods as either private or public. They can never be private or public goods as such. Their private or public character depends on how few or how many people consider them to be goods, with the degree to which they are private or public changing as these evaluations change, and ranging from one to infinity. Even seemingly completely private things like the interior of my apartment or the color of my underwear thus can become public goods as soon as somebody else starts caring about them.[182] And seemingly public goods, like the exterior of my house or the color of my overalls, can become extremely private goods as soon as other people stop caring about them. Moreover, every good can change its characteristics again and again; it can even turn from a public or private good to a public or private bad and vice versa, depending solely on the changes in this caring or uncaring. However, if this is so, no decision whatsoever can be based on the classification of goods as private or public.[183] In fact, to do so it would not only become necessary to ask virtually every individual person with respect to every single good whether or not he happened to care about it, positively or negatively and perhaps to what extent, in order to determine who might profit from what and should hence participate in its financing. (And how could one know if they were telling the truth?) It would also become necessary to monitor all changes in such evaluations continually, with the result that no definite decision could ever be made regarding the production of anything, and as a consequence of a nonsensical theory all of us would be long dead.[184]

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182 Cf. for instance, the ironic case that W. Block makes for socks being public goods in "Public Goods and Externalities," in: Journal of Libertarian Studies, 1983.

183 To avoid any misunderstanding here, every single producer and every association of producers making joint decisions can, at any time, decide whether or not to produce a good based on an evaluation of the privateness or publicness of the good. In fact, decisions on whether or not to produce public goods privately are constantly made within the framework of a market economy. What is impossible is to decide whether or not to ignore the outcome of the operation of a free market based on the assessment of the degree of privateness or publicness of a good.

184 In fact, then, the introduction of the distinction between private and public goods is a relapse into the presubjectivist era of economics. From the point of view of subjectivist economics no good exists that can be categorized objectively as private or public. This, essentially, is why the second proposed criterion for public goods, i.e., But even if one were to ignore all these difficulties, and were willing to admit for the sake of argument that the private-public good distinction did hold water, even then the argument would not prove what it is supposed to. It neither provides conclusive reasons why public goods—assuming that they exist as a separate category of goods—should be produced at all, nor why the state rather than private enterprises should produce them. This is what the theory of public goods essentially says, having introduced the above-mentioned conceptual distinction: The positive effects of public goods for people who do not contribute anything to their production or financing proves that these goods are desirable. But evidently, they would not be produced, or at least not in sufficient quantity and quality, in a free, competitive market, since not all of those who would profit from their production would also contribute financially to make the production possible. So in order to produce these goods (which are evidently desirable, but would not be produced otherwise), the state must jump in and assist in their production. This sort of reasoning, which can be found in almost every textbook on economics (Nobel laureates not excluded[185]) is completely fallacious, and fallacious on two counts.

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permitting nonrivalrous consumption (cf. note 6 above), breaks down, too. For how could any outside observer determine whether or not the admittance of an additional free rider at no charge would not indeed lead to a reduction in the enjoyment of a good by others?! Clearly, there is no way that he could objectively do so. In fact, it might well be that one's enjoyment of a movie or driving on a road would be considerably reduced if more people were allowed in the theater or on the road. Again, to find out whether or not this is the case one would have to ask every individual—and not everyone might agree. (What then?) Furthermore, since even a good that allows nonrivalrous consumption is not a free good, as a consequence of admitting additional free riders "crowding" would eventually occur, and hence everyone would have to be asked about the appropriate "margin." In addition, my consumption may or may not be affected, depending on who it is that is admitted free of charge, so I would have to be asked about this, too. And finally, everyone might change his opinion on all of these questions over time. It is thus in the same way impossible to decide whether or not a good is a candidate for state (rather than private) production based on the criterion of nonrivalrous consumption as on that of nonexcludability. (Cf. also note 16 below).

[185] Cf. P. Samuelson, "The Pure Theory of Public Expenditure," in: Review of Economics and Statistics, 1954; and Economics, New York, 1976, Chapter 8; M. Friedman, Capitalism and Freedom, Chicago, 1962, Chapter 2; F. A. Hayek, Law, Legislation and Liberty, vol. 3, Chicago, 1979, Chapter 14.

For one thing, to come to the conclusion that the state has to provide public goods that otherwise would not be produced, one must smuggle a norm into one's chain of reasoning. Otherwise, from the statement that because of some special characteristics of theirs certain goods would not be produced, one could never reach the conclusion that these goods *should* be produced. But with a norm required to justify their conclusion, the public goods theorists clearly have left the bounds of economics as a positive, *wertfrei* science. Instead they have transgressed into the field of morals or ethics, and hence one would expect to be offered a theory of ethics as a cognitive discipline in order for them to legitimately do what they are doing and to justifiably derive the conclusion that they actually derive. But it can hardly be stressed enough that nowhere in the public goods theory literature can there be found anything that even faintly resembles such a cognitive theory of ethics.[186] Thus it

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186 In recent years economists, in particular of the so-called Chicago-school, have been increasingly concerned with the analysis of property rights (cf. H. Demsetz, "The Exchange and Enforcement of Property Rights," in: Journal of Law and Economics, 1964; and 'Toward a Theory of Property Rights," in: American Economic Review, 1967; R. Coase, 'The Problem of Social Cost," in: Journal of Law and Economics, 1960; A. Alchian, Economic Forces at Work, Indianapolis, 1977, part 2; R. Posner, Economic Analysis of Law, Boston, 1977). Such analyses, however, have nothing to do with ethics. On the contrary, they represent attempts to substitute economic efficiency considerations for the establishment of justifiable ethical principles (on the critique of such endeavors cf. M. N. Rothbard, The Ethics of Liberty, Atlantic Highlands 1982, Chapter 26; W. Block, "Coase and Demsetz on Private Property Rights," in: Journal of Libertarian Studies, 1977; R. Dworkin, "Is Wealth a Value," in: Journal of Legal Studies, 1980; M. N. Rothbard, "The Myth of Efficiency," in: M. Rizzo (ed.), Time, Uncertainty, and Disequilibrium, Lexington, 1979). Ultimately, all efficiency arguments are irrelevant because there simply exists no nonarbitrary way of measuring, weighing, and aggregating individual utilities or disutilities that result from some given allocation of property rights. Hence, any attempt to recommend some particular system of assigning property rights in terms of its alleged maximization of "social welfare" is pseudo-scientific humbug (see in particular, M. N. Rothbard, 'Toward a Reconstruction of Utility and Welfare Economics," Center for Libertarian Studies, Occasional Paper No. 3, New York, 1977; also, L. Robbins, "Economics and Political Economy," in: American Economic Review, 1981).

The "Unanimity Principle" which J. Buchanan and G. Tullock, following K. Wicksell (Finanztheoretische Untersuchungen, Jena, 1896), have repeatedly proposed as a guide for economic policy is also not to be confused with an ethical principle proper. According to this principle only such policy changes should be enacted which can find unanimous consent—and that surely sounds attractive; but then, mutatis mutandis, it also determines that the status quo be preserved if there is less than unanimous must be stated at the outset, that the public goods theorists are misusing whatever prestige they might have as positive economists for pronouncements on matters on which, as their own writings indicate, they have no authority whatsoever. Perhaps, though, they have stumbled on something correct by accident, without supporting it with an elaborate moral theory? It becomes apparent that nothing could be further from the truth as soon as one explicitly formulates the norm that would be needed to arrive at the above-mentioned conclusion about the state's having to assist in the provision of public goods. The norm required to reach the above conclusion is this: whenever it can somehow be proven that the production of a particular good or service has a positive effect on someone but would not be produced at all, or would not be produced in a definite quantity or quality unless others participated in its financing, then the use of aggressive violence against these persons is allowed, either directly or indirectly with the help of the state, and these persons may be forced to share in the necessary financial burden. It does not need much comment to show that chaos would result from implementing this rule, as it amounts to saying that everyone can aggress against everyone else whenever he feels like it. Moreover, it should be sufficiently clear from the discussion of the problem of the justification of normative statements (Chapter 7) that this norm could never be justified as a fair norm. For to argue in that way and to seek agreement for this argument must presuppose, contrary to

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agreement on any proposal of change—and that sounds far less attractive because it implies that any given, present state of affairs regarding the allocation of property rights must be legitimate either as a point of departure or as a to-be-continued state. However, the public choice theorists offer no justification in terms of a normative theory of property rights for this daring claim as would be required. Hence, the unanimity principle is ultimately without ethical foundation. In fact, because it would legitimize any conceivable status quo, the Buchananites most favored principle is no less than outrightly absurd as a moral criterion (cf. on this also M. N. Rothbard, The Ethics of Liberty, Atlantic Highlands, 1982, Chapter 26; and "The Myth of Neutral Taxation," in: Cato Journal, 1981, pp.549f).

Whatever might still be left for the unanimity principle, Buchanan and Tullock, following the lead of Wicksell again, then give away by reducing it in effect to one of "relative" or "quasi" unanimity.

what the norm says, that everyone's integrity as a physically independent decision-making unit is assured.

But the public goods theory breaks down not just because of the faulty moral reasoning implied in it. Even the utilitarian, economic reasoning contained in the above argument is blatantly wrong. As the public goods theory states, it might well be that it would be better to have the public goods than not to have them, though it should not be forgotten that no a priori reason exists that this must be so of necessity (which would then end the public goods theorists' reasoning right here). For it is clearly possible, and indeed known to be a fact, that anarchists exist who so greatly abhor state action that they would prefer not having the so-called public goods at all to having them provided by the state![187] is In any case, even if the argument is conceded so far, to leap from the statement that the public goods are desirable to the statement that they should therefore be provided by the state is anything but conclusive, as this is by no means the choice with which one is confronted. Since money or other resources must be withdrawn from possible alternative uses to finance the supposedly desirable public goods, the only relevant and appropriate question is whether or not these alternative uses to which the money could be put (that is, the private goods which could have been acquired but now cannot be bought because the money is being spent on public goods instead) are more valuable—more urgent—than the public goods. And the answer to this question is perfectly clear. In terms of consumer evaluations, however high its absolute level might be, the value of the public goods is relatively lower than that of the competing private goods, because if one had left the choice to the consumers (and had not forced one alternative upon them), they evidently would have preferred spending their money differently (otherwise no force would have been necessary). This proves beyond any doubt that the resources

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[187] Cf. on this argument M. N. Rothbard, "The Myth of Neutral Taxation," in: Cato Journal, 1981, p.533. Incidentally, the existence of one single anarchist also invalidates all references to Paretooptimality as a criterion for economically legitimate state action.

used for the provision of public goods are wasted, as they provide consumers with goods or services which at best are only of secondary importance. In short, even if one assumed that public goods which can be distinguished clearly from private goods existed, and even if it were granted that a given public good might be useful, public goods would still compete with private goods. And there is only one method for finding out whether or not they are more urgently desired and to what extent, or, mutatis mutandis, if, and to what extent, their production would take place at the expense of the nonproduction or reduced production of more urgently needed private goods: by having *everything* provided by freely competing private enterprises. Hence, contrary to the conclusion arrived at by the public goods theorists, logic forces one to accept the result that only a pure market system can safeguard the rationality, from the point of view of the consumers, of a decision to produce a public good. And only under a pure capitalist order could it be ensured that the decision about how much of a public good to produce (provided it should be produced at all) is rational as well.[188] No less

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188 Essentially the same reasoning that leads one to reject the socialist-statist theory built on the allegedly unique character of public goods as defined by the criterion of nonexcludability, also applies when instead, such goods are defined by means of the criterion of nonrivalrous consumption (cf. notes 6 and 12 above). For one thing, in order to derive the normative statement that they should be so offered from the statement of fact that goods which allow nonrivalrous consumption would not be offered on the free market to as many consumers as could be, this theory would face exactly the same problem of requiring a justifiable ethics. Moreover, the utilitarian reasoning is blatantly wrong, too. To reason, as the public goods theorists do, that the free-market practice of excluding free riders from the enjoyment of goods which would permit nonrivalrous consumption at zero marginal costs would indicate a suboptimal level of social welfare and hence would require compensatory state action is faulty on two related counts. First, cost is a subjective category and can never be objectively measured by any outside observer. Hence, to say that additional free riders could be admitted at no cost is totally inadmissible. In fact, if the subjective costs of admitting more consumers at no charge were indeed zero, the private owner-producer of the good in question would do so. If he does not do so, this reveals that to the contrary, the costs for him are not zero. The reason for this may be his belief that to do so would reduce the satisfaction available to the other consumers and so would tend to depress the price for his product; or it may simply be his dislike for uninvited free riders as, for instance, when I object to the proposal that I turn over my less-than-capacity-filled living room to various self- inviting guests for nonrivalrous consumption. In any case, since for whatever reason the cost cannot be assumed to be zero, it is then fallacious to speak of a market failure when certain goods are not handed than a semantic revolution of truly Orwellian dimensions would be required to come up with a different result. Only if one were willing to interpret someone's "no" as really meaning "yes," the "nonbuying of something" as meaning that it is really "preferred over that which the nonbuying person does instead of non-buying," of "force" really meaning "freedom," of "non-contracting" really meaning "making a contract" and so on, could the public goods theorists' point be "proven."[189] But then, how could we be sure that

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out free of charge. On the other hand, welfare losses would indeed become unavoidable if one accepted the public goods theorists' recommendation of letting goods that allegedly allow for nonrivalrous consumption to be provided free of charge by the state. Besides the insurmountable task of determining what fulfills this criterion, the state, independent of voluntary consumer purchases as it is, would first face the equally insoluble problem of rationally determining how much of the public good to provide. Clearly, since even public goods are not free goods but are subject to "crowding" at some level of use, there is no stopping point for the state, because at any level of supply there would still be users who would have to be excluded and who, with a larger supply, could enjoy a free ride. But even if this problem could be solved miraculously, in any case the (necessarily inflated) cost of production and operation of the public goods distributed free of charge for nonrivalrous consumption would have to be paid for by taxes. And this then, i.e., the fact that consumers would have been coerced into enjoying their free rides, again proves beyond any doubt that from the consumers' point of view these public goods, too, are inferior in value to the competing private goods that they now no longer can acquire.

189 The most prominent modern champions of Orwellian double talk are J. Buchanan and G. Tullock (cf. their works cited in note 3 above). They claim that government is founded by a "constitutional contract" in which everyone "conceptually agrees" to submit to the coercive powers of government with the understanding that everyone else is subject to it, too. Hence, government is only seemingly coercive but really voluntary. There are several evident objections to this curious argument. First, there is no empirical evidence whatsoever for the contention that any constitution has ever been voluntarily accepted by everyone concerned. Worse, the very idea of all people voluntarily coercing themselves is simply inconceivable, much in the same way that it is inconceivable to deny the law of contradiction. For if the voluntarily accepted coercion is voluntary, then it would have to be possible to revoke one's subjection to the constitution and the state would be no more than a voluntarily joined club. If, however, one does not have the "right to ignore the state"—and that one does not have this right is, of course, the characteristic mark of a state as compared to a club—then it would be logically inadmissible to claim that one's acceptance of state coercion is voluntary. Furthermore, even if all this were possible, the constitutional contract could still not claim to bind anyone except the original signers of the constitution.

How can Buchanan and Tullock come up with such absurd ideas? By a semantic trick. What was "inconceivable" and "no agreement" in pre- Orwellian talk is for them "conceptually possible" and a "conceptual agreement." For a most instructive they really mean what they seem to mean when they say what they say, and do not rather mean the exact opposite, or don't mean anything with a definite content at all, but are simply babbling? We could not! M. Rothbard is thus completely right when he comments on the endeavors of the public goods ideologues to prove the existence of so-called market failures due to the nonproduction or a quantitatively or qualitatively "deficient" production of public goods. He writes, "… such a view completely misconceives the way in which economic science asserts that free-market action is *ever* optimal. It is optimal, not from the standpoint of the personal ethical views of an economist, but from the standpoint of free, voluntary actions of all participants and in satisfying the freely expressed needs of the consumers. Government interference, therefore, will necessarily and always move away from such an optimum."[190]

Indeed, the arguments supposedly proving market failures are nothing short of being patently absurd. Stripped of their disguise of technical jargon all they prove is this: a market is not perfect, as it is characterized by the nonaggression principle imposed on conditions marked by scarcity, and so certain goods or services which could only be produced and provided if aggression were allowed will not be produced. True enough. But no market theorist would ever dare deny this. Yet, and this is decisive, this "imperfection" of the market can be defended, morally as well as economically, whereas the supposed "perfections" of markets propagated by the public goods theorists cannot.[191] It is true enough, too, that a

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short exercise in this sort of reasoning in leaps and bounds cf. J. Buchanan, "A Contractarian Perspective on Anarchy," in: Freedom in Constitutional Contract, College Station, 1977. Here we learn (p. 17) that even the acceptance of the 55 m.p.h, speed limit is possibly voluntary (Buchanan is not quite sure), since it ultimately rests on all of us conceptually agreeing on the constitution, and that Buchanan is not really a statist, but in truth an anarchist (p. 11).

190 M. N. Rothbard, Man, Economy and State, Los Angeles, 1970, p.887.

191 This, first of all, should be kept in mind whenever one has to assess the validity of statist-interventionist arguments such as the following, by J. M. Keynes ("The End of Laissez Faire," in: J. M. Keynes, Collected Writings, London 1972, vol. 9, p.291): "The most important Agenda of the state relate not to those activities which private individuals are already fulfilling but to those functions which fall outside the sphere of the individual, to those decisions which are made by no one if the state does not termination of the state's current practice of providing public goods would imply some change in the existing social structure and the distribution of wealth. And such a reshuffling would certainly imply hardship for some people. As a matter of fact, this is precisely why there is widespread public resistance to a policy of privatizing state functions, even though in the long run overall social wealth would be enhanced by this very policy. Surely, however, this fact cannot be accepted as a valid argument demonstrating the failure of markets. If a man had been allowed to hit other people on the head and is now not permitted to continue with this practice, he is certainly hurt. But one would hardly accept *that* as a valid excuse for upholding the old (hitting) rules. He is harmed, but harming him means substituting a social order in which every consumer has an equal right to determine what and how much of anything is produced, for a system in which some consumers have the right to determine in what respect other consumers are not allowed to buy voluntarily what they want with the means justly acquired by them and at their disposal. And certainly, such a substitution would be preferable from the point of view of all consumers as voluntary consumers.

By force of logical reasoning, then, one must accept Molinari's above-cited conclusion that for the sake of consumers, all goods and services be provided by markets.[192] It is not only false

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make them. The important thing for government is not to do things which individuals are doing already and to do them a little better or a little worse: but to do those things which are not done at all." This reasoning not only appears phony, it truly is.

192 Some libertarian minarchists object that the existence of a market presupposes the recognition and enforcement of a common body of law, and hence a government as a monopolistic judge and enforcement agency.(Cf., for instance, J. Hospers, Libertarianism, Los Angeles, 1971; T. Machan, Human Rights and Human Liberties, Chicago, 1975.) Now, it is certainly correct that a market presupposes the recognition and enforcement of those rules that underlie its operation. But from this it does not follow that this task must be entrusted to a monopolistic agency. In fact, a common language or sign-system is also presupposed by the market; but one would hardly think it convincing to conclude that hence the government must ensure the observance of the rules of language. Just as the system of language then, the rules of market behavior emerge spontaneously and can be enforced by the "invisible hand" of self-interest. Without the observance of common rules of speech people could not reap the advantages that communication offers, and without the observance of common rules of conduct, people could not enjoy the benefits of the higher productivity that clearly distinguishable categories of goods exist, which would render special amendments to the general thesis of capitalism's economic superiority necessary; even if they did exist, no special reason could be found why these supposedly special public goods should not also be produced by private enterprises since they invariably stand in competition with private goods. In fact, in spite of all the propaganda from the side of the public goods theorists, the greater efficiency of markets as compared with the state has been realized with respect to more and more of the alleged public goods. Confronted daily with experience, hardly anyone seriously studying these matters could deny that nowadays markets could produce postal services, railroads, electricity, telephone, education, money, roads and so on more effectively, i.e., more to the liking of the consumers, than the state. Yet people generally shy away from accepting in one particular sector what logic forces upon them: in the field of the production of security. Hence, the rest of this chapter will explain the superior functioning of a capitalist economy in this particular area—a superiority whose logical case has already been made, but which shall be rendered more persuasive once some empirical material is added to the analysis and it is studied as a problem in its own right.[193]

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of an exchange economy based on the division of labor. In addition, as I have demonstrated in Chapter 7, independent of any government, the rules of the market can be defended a priori as just. Moreover, as I will argue in the conclusion of this Chapter, it is precisely a competitive system of law administration and law enforcement that generates the greatest possible pressure to elaborate and enact rules of conduct that incorporate the highest degree of consensus conceivable. And, of course, the very rules that do just this are those that a priori reasoning establishes as the logically necessary presupposition of argumentation and argumentative agreement.

193 Incidentally, the same logic that would force one to accept the idea of the production of security by private business as economically the best solution to the problem of consumer satisfaction also forces one, as far as moral-ideological positions are concerned, to abandon the political theory of classical liberalism and take the small but nevertheless decisive step (from there) to the theory of libertarianism, or private property anarchism. Classical liberalism, with L. v. Mises as its foremost representative in this century, advocates a social system based on the fundamental rules of the natural theory of property. And these are also the rules that libertarianism advocates. But classical liberalism then wants to have these laws enforced by a monopolistic agency (the government, the state)—an organization, that is, which is not exclusively dependent on voluntary, contractual support by the consumers

How would a system of nonmonopolistic, competing producers of security work? It should be clear from the outset that in answering this question one is leaving the realm of purely logical analysis and hence the answers must necessarily lack the certainty, the apodictic character of pronouncements on the validity of the public goods theory. The problem faced is precisely analogous to that of asking how a market would solve the problem of hamburger production, especially if up to this point hamburgers had been produced exclusively by the state, and hence no one could draw on past experience. Only tentative answers could be formulated. No one could possibly know the exact structure of the hamburger industry—how many competing companies would come into existence, what importance this industry might have compared to others, what the hamburgers would look like, how many different sorts of hamburgers would appear on the market and perhaps disappear again because of a lack of demand, and so on. No one could know all of the circumstances and the changes which would influence the very structure of the hamburger industry that would take place over time—changes in demand of various consumer groups, changes in technology, changes in the prices of various goods that affect the industry directly or indirectly, and so on.

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of its respective services, but instead has the right to unilaterally determine its own income, i.e., the taxes to be imposed on consumers in order to do its job in the area of security production. Now, however plausible this might sound, it should be clear that it is inconsistent. Either the principles of the natural property theory are valid, in which case the state as a privileged monopolist is immoral, or business built on and around aggression—the use of force and of noncontractual means of acquiring resources—is valid, in which case one must toss out the first theory. It is impossible to sustain both contentions and not be inconsistent unless, of course, one could provide a principle that is more fundamental than both the natural theory of property and the state's right to aggressive violence and from which both, with the respective limitations regarding the domains in which they are valid, can be logically derived. However, liberalism never provided any such principle, nor will it ever be able to do so, since, as I demonstrated in Chapter 7, to argue in favor of anything presupposes one's right to be free of aggression. Given the fact then that the principles of the natural theory of property cannot be argumentatively contested as morally valid principles without implicitly acknowledging their validity, by force of logic one is committed to abandoning liberalism and accepting instead its more radical child: libertarianism, the philosophy of pure capitalism, which demands that the production of security be undertaken by private business, too.

It must be stressed that all this is no different when it comes to the question of the private production of security. But this by no means implies that nothing definitive can be said on the matter. Assuming certain general conditions of demand for security services which are known to be more or less realistic by looking at the world as it presently is, what can and will be said is how different social orders of security production, characterized by different structural constraints under which they have to operate, will respond differently.[194] Let us first analyze the specifics of monopolistic, state-run security production, as at least in this case one can draw on ample evidence regarding the validity of the conclusions reached, and then turn to comparing this with what could be expected if such a system were replaced by a nonmonopolistic one.

Even if security is considered to be a public good, in the allocation of scarce resources it must compete with other goods. What is spent on security can no longer be spent on other goods that also might increase consumer satisfaction. Moreover, security is not a single, homogeneous good, but rather consists of numerous components and aspects. There is not only prevention, detection, and enforcement but there is also security from robbers, rapists, polluters, natural disasters, and so on. Moreover, security is not produced in a "lump," but can be supplied in marginal units. In addition, different people attach different importance to security as a whole and also to different aspects of the whole thing, depending on their personal characteristics, their past experiences with various factors of insecurity, and the time and place in which they happen to live.[195] Now, and here we return to the fundamental economic problem of allocating scarce resources to competing uses, how can the state—an organization which is not financed exclusively by voluntary

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[194] Cf. on the problem of competitive security production G. de Molinari, "The Production of Security" Center for Libertarian Studies, Occasional Paper No. 2, New York, 1977; M. N. Rothbard, Power and Market, Kansas City, 1977, Chapter 1; and For A New Liberty, New York, 1978, Chapter 12; also: W.C. Wooldridge, Uncle Sam the Monopoly Man, New Rochelle, 1970, Chapters 5-6; M. and L. Tannehill, The Market for Liberty, New York, 1984, part 2.

[195] Cf. M. Murck, Soziologie der oeffentlichen Sicherheit, Frankfurt/M., 1980.

contributions and the sales of its products, but rather partially or even wholly by taxes—decide how much security to produce, how much of each of its countless aspects, to whom and where to provide how much of what? The answer is that it has no rational way to decide this question. From the point of view of the consumers its response to their security demands must thus be considered arbitrary. Do we need one policeman and one judge, or 100,000 of each? Should they be paid $100 a month, or $10,000? Should the policemen, however many we might have, spend more time patrolling the streets, chasing robbers, recovering stolen loot, or spying on participants in victimless crimes such as prostitution, drug use, or smuggling? And should the judges spend more time and energy hearing divorce cases, traffic violations, cases of shoplifting, murder, or antitrust cases? Clearly, all of these questions must be answered somehow because as long as there is scarcity and we do not live in the Garden of Eden, the time and money spent on one thing cannot be spent on another. The state must answer these questions, too, but whatever it does, it does it *without* being subject to the profit-and-loss criterion. Hence, its action is arbitrary and thus necessarily involves countless wasteful misallocations from the consumer's viewpoint.[196] Independent to a large degree of consumer wants, the state-employed security producers instead do, as everyone knows, what *they* like. They hang around instead of doing anything, and if they do work they prefer doing what is easiest or work where they can wield power rather than serve consumers. Police officers drive around a lot in cars, hassle petty traffic violators, and spend huge amounts of money investigating victimless crimes which a lot of people (i.e., nonparticipants) do not like, but which few would be willing to spend their money on to fight, as they are not immediately affected by it. Yet with respect to the one thing that consumers want most urgently—the prevention of hard-core crime (i.e., crimes *with* victims), the detection and effective punishment of hard-core criminals, the recovery of loot, and the securement of compensation

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196 On the deficiencies of democratically controlled allocation decisions cf. above, Chapter 9, n. 4.

to victims of crimes from the aggressors—they are notoriously inefficient, in spite of ever higher budget allocations.

Further, and here I return to the problem of a lowered quality of output (with given allocations), whatever state-employed police or judges happen to do (arbitrary as it must be), since their income is more or less independent of the consumers' evaluations of their respective services, they will tend to do poorly. Thus one observes police arbitrariness and brutality and the slowness in the judicial process. Moreover, it is remarkable that neither the police nor the judicial system offers consumers anything even faintly resembling a service contract in which it is laid down in unambiguous terms what procedure the consumer can expect to be set in motion in a specific situation. Rather, both operate in a contractual void which over time allows them to change their rules of procedure arbitrarily, and which explains the truly ridiculous fact that the settlement of disputes between police and judges on the one hand and private citizens on the other is not assigned to an independent third party, but to another police or judge who shares employers with one party—the government—in the dispute.

Third, anyone who has seen state-run police stations and courts, not to mention prisons, knows how true it is that the factors of production used to provide us with such security are overused, badly maintained, and filthy. There is no reason for them to satisfy the consumers who provide their income. And if, in an exceptional case, this happens not to be so, then it has only been possible at costs that are comparatively much higher than those of any similar private business.[197]

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[197] Sums up Molinari ("Production of Security," Center for Libertarian Studies, Occasional Paper No. 2, New York, 1977, pp. 13-14): "If … the consumer is not free to buy security wherever he pleases, you forthwith see open up a large profession dedicated to arbitrariness and bad management. Justice becomes slow and costly, the police vexatious, individual liberty is no longer respected, the price of security is abusively inflated and inequitably apportioned, according to the power and influence of this or that class of consumers."

Without a doubt, all of these problems inherent in a system of monopolistic security production would be solved relatively quickly once a given demand for security services was met by a competitive market with its entirely different incentive structure for producers. This is not to say that a "perfect" solution to the problem of security would be found. There would still be robberies and murders; and not all loot would be recovered nor all murderers caught. But in terms of consumer evaluations the situation would improve to the extent that the nature of man would allow this. First, as long as there is a competitive system, i.e., as long as the producers of security services depend on voluntary purchases, most of which probably take the form of service and insurance contracts agreed to in advance of any actual "occurrence" of insecurity or aggression, no producer could increase its in come without improving services or quality of product as perceived by the consumers. Furthermore, all security producers taken together could not bolster the importance of their particular industry unless, for whatever reason, consumers indeed started evaluating security more highly than other goods, thus ensuring that the production of security would never and nowhere take place at the expense of the non- or reduced production of, let us say, cheese, as a competing private good. In addition, the producers of security services would have to diversify their offerings to a considerable degree because a highly diversified demand for security products among millions and millions of consumers exists. Directly dependent on voluntary consumer support, they would immediately be hurt financially if they did not appropriately respond to the consumers' various wants or changes in wants. Thus, every consumer would have a direct influence, albeit small, on the output of goods appearing on or disappearing from the security market. Instead of offering a uniform "security packet" to everyone, as is characteristic of state production policy, a multitude of service packages would appear on the market. They would be tailored to the different security needs of different people, taking account of different occupations, different risk-taking behavior, different things to be protected and insured, and different geographical locations and time constraints.

But that is far from all. Besides diversification, the content and quality of the products would improve, too. Not only would the treatment of consumers by the employees of security enterprises improve immediately, the "I could care less" attitude, the arbitrariness and even brutality, the negligence and tardiness of the present police and judicial systems would ultimately disappear. Since they then would be dependent on voluntary consumer support, any maltreatment, impoliteness, or ineptitude could cost them their jobs. Further, the above-mentioned peculiarity—that the settlement of disputes between a client and his service provider is invariably entrusted to the latter's judgment—would almost certainly disappear from the books, and conflict arbitration by independent parties would become the standard deal offered by producers of security. Most importantly though, in order to attract and retain customers the producers of such services would have to offer *contracts* which would allow the consumer to know what he was buying and enable him to raise a valid, intersubjectively ascertainable complaint if the actual performance of the security producer did not live up to its obligations. And more specifically, insofar as they are not individualized service contracts where payment is made by the customers for covering their own risks exclusively, but rather insurance contracts proper which involve pooling one's own risks with those of other people, contrary to the present statist practice, these contracts most certainly would no longer contain any deliberately built-in redistributive scheme favoring one group of people at the expense of another. Otherwise, if anyone had the feeling that the contract offered to him involved his paying for other people's peculiar needs and risks—factors of possible insecurity, that is, that he did not perceive as applicable to his own case—he would simply reject signing it or discontinue his payments.

Yet when all this is said, the question will inevitably surface, "Wouldn't a competitive system of security production still necessarily result in permanent social conflict, in chaos and anarchy?" There are several points to be made regarding this alleged criticism. First, it should be noted that such an impression would by no means be in accordance with historical, empirical evidence.

Systems of competing courts have existed at various places, such as in ancient Ireland or at the time of the Hanseatic league, before the arrival of the modern nation state, and as far as we know they worked well.[198] Judged by the then existent crime rate (crime per capita), the private police in the Wild West (which incidentally was not as wild as some movies insinuate) was relatively more successful than today's state-supported police.[199] And turning to contemporary experience and examples, millions and millions of international contacts exist even now—contacts of trade and travel—and it certainly seems to be an exaggeration to say, for instance, that there is more fraud, more crime, more breach of contract there than in domestic relations. And this is so, it should be noted, without there being one big monopolistic security producer and law-maker. Finally it is not to be forgotten that even now in a great number of countries there are various private security producers alongside to the state: private investigators, insurance detectives, and private arbitrators. Regarding their work, the impression seems to confirm the thesis that they are more, not less, successful in resolving social conflicts than their public counterparts.

However, this historical evidence is greatly subject to dispute, in particular regarding whether any general information can be derived from it. Yet there are systematic reasons, too, why the fear expressed in the above criticism is not well-founded. Paradoxical as it may seem at first, this is because establishing a competitive system of security producers implies erecting an institutionalized incentive structure to produce an order of law and law-enforcement that embodies the highest possible degree of consensus regarding the question of conflict resolution, and hence will tend to generate less rather than more social unrest and conflict than under monopolistic

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198 Cf. the literature cited in note 21 above; also: B. Leoni, Freedom and the Law, Princeton, 1961; J. Peden, "Property Rights in Celtic Irish Law," in: Journal of Libertarian Studies, 1977.

199 Cf. T. Anderson and P. J. Hill, "The American Experiment in Anarcho-Capitalism: The Not So Wild, Wild West," in: Journal of Libertarian Studies, 1980.

auspices![200] In order to understand this it is necessary to take a closer look at the only typical situation that concerns the skeptic and allows him to believe in the superior virtue of a monopolistically organized order of security production. This is the situation when a conflict arises between A and B, both are insured by different companies and the companies cannot come to an immediate agreement regarding the validity of the conflicting claims brought forward by their respective clients. (No problem would exist if such an agreement were reached, or if both clients were insured by one and the same company—at least the problem then would not be different in any way from that emerging under a statist monopoly!) Wouldn't such a situation always result in an armed confrontation? This is highly unlikely. First, any violent battle between companies would be costly and risky, in particular if these companies had reached a respectable size which would be important for them to have in order to appear as effective guarantors of security to their prospective clients in the first place. More importantly though, under a competitive system with each company dependent on the continuation of voluntary consumer payments, any battle would have to be deliberately supported by each and every client of both companies. If there were only one person who withdrew his payments because he was not convinced the battle was necessary in the particular conflict at hand, there would be immediate economic pressure on the company to look for a peaceful solution to the conflict.[201] Hence, any competitive producer of security would be extremely cautious about his dedication to engaging in violent measures in order to resolve conflicts. Instead, to the extent that it is peaceful conflict-resolution that consumers want, each and every security producer would go to great lengths to provide such measures to its clients and to establish in advance, for everyone to know,

200 Cf. on the following H. H. Hoppe, Eigentum, Anarchie und Staat, Opladen, 1987, Chapter 5.

201 Contrast this with the state's policy of engaging in battles without having everyone's deliberate support because it has the right to tax people; and ask yourself if the risk of war would be lower or higher if one had the right to stop paying taxes as soon as one had the feeling that the state's handling of foreign affairs was not to one's liking!

to what arbitration process it would be willing to submit itself and its clients in case of a disagreement over the evaluation of conflicting claims. And as such a scheme could only appear to the clients of different firms to be really working if there were agreement among them regarding such arbitrational measures, a system of law governing relations between companies which would be universally acceptable to the clients of all of the competing security producers would naturally evolve. Moreover, the economic pressure to generate rules representing consensus on how conflicts should be handled is even more far-reaching. Under a competitive system the independent arbitrators who would be entrusted with the task of finding peaceful solutions to conflicts would be dependent on the continued support of the two disagreeing companies insofar as they could and would select different judges if either one of them were sufficiently dissatisfied with the outcome of their arbitration work. Thus, these judges would be under pressure to find solutions to the problems handed over to them which, this time not with respect to the procedural aspects of law, but its content, would be acceptable to all of the clients of the firms involved in a given case as a fair and just solution.[202] Otherwise one or all of the companies might lose some of their customers, thus inducing those firms to turn to a different arbitrator the next time they were in need of one.[203]

But wouldn't it be possible under a competitive system for a security-producing firm to become an outlaw company—a firm, that is, which, supported by its own clients, started to aggress against others? There is certainly no way to deny that this might be possible, though again it must be emphasized that here one is in the realm

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202 And it may be noted here again that norms that incorporate the highest possible degree of consensus are, of course, those that are presupposed by argumentation and whose acceptance makes consensus on anything at all possible, as shown in Chapter 7.

203 Again, contrast this with state-employed judges who, because they are paid from taxes and so are relatively independent of consumer satisfaction, can pass judgments which are clearly not acceptable as fair by everyone; and ask yourself if the risk of not finding the truth in a given case would be lower or higher if one had the possibility of exerting economic pressure whenever one had the feeling that a judge who one day might have to adjudicate in one's own case had not been sufficiently careful in assembling and judging the facts of a case, or simply was an outright crook.

of empirical social science and no one could know such a thing with certainty. And yet the tacit insinuation that the possibility of a security firm becoming an outlaw company would somehow indicate a severe deficiency in the philosophy and economics of a pure capitalist social order is fallacious.[204] First, it should be recalled that any social system, a statist-socialist order no less than a pure market economy, is dependent for its continued existence on public opinion, and that a given state of public opinion at all times delimits what can or cannot occur, or what is more or less likely to occur in a given society. The current state of public opinion in West Germany, for instance, makes it highly unlikely or even impossible that a statist-socialist system of the present-day Russian type could be imposed on the West German public. The lack of public support for such a system would doom it to failure and make it collapse. And it would be even more unlikely that any such attempt to impose a Russian-type order could ever hope to succeed among Americans, given American public opinion. Hence, in order to see the problem of outlaw companies correctly, the above question should be phrased as follows: How likely is it that any such event would occur in a given society with its specific state of public opinion? Formulated in this way, it is clear that the answer would have to be different for different societies. For some, characterized by socialist ideas deeply entrenched in the public, there would be a greater likelihood of the reemergence of aggressor companies, and for other societies there would be a much smaller chance of this happening. But then, would the prospect of a competitive system of security production in any given case be better or worse than that of the continuation of a statist system? Let us look, for instance, at the present-day United States. Assume that by a legislative act the state had abolished its right to provide security with tax funds, and a competitive system of security production were introduced. Given the state of public opinion, how likely would it then be that outlaw producers would spring up, and what if they did? Evidently, the answer would depend on the

204 Cf. on the following in particular, M. N. Rothbard, For A New Liberty, New York, 1978, pp.233ff.

reactions of the public to this changed situation. Thus, the first reply to those challenging the idea of a private market for security would have to be: what about you? What would your reaction be? Does your fear of outlaw companies mean that you would then go out and engage in trade with a security producer that aggressed against other people and their property, and would you continue supporting it if it did? Certainly the critic would be much muted by this counterattack. But more important than this is the systematic challenge implied in this personal counterattack. Evidently, the described change in the situation would imply a change in the cost-benefit structure that everyone would face once he had to make his decisions. Before the introduction of a competitive system of security production it had been legal to participate in and support (state) aggression. Now such an activity would be an illegal activity. Hence, given one's conscience, which makes each of one's own decisions appear more or less costly, i.e., more or less in harmony with one's own principles of correct behavior, support for a firm engaging in the exploitation of people unwilling to deliberately support its actions would be more costly now than before. Given this fact, it must be assumed that the number of people—among them even those who otherwise would have readily lent their support to the state—who would now spend their money to support a firm committed to honest business would rise, and would rise everywhere this social experiment was tried. In contrast, the number of people still committed to a policy of exploitation, of gaining at the expense of others, would fall. How drastic this effect would be would, of course, depend on the state of public opinion. In the example at hand—the United States, where the natural theory of property is extremely widespread and accepted as a private ethic, the libertarian philosophy being essentially the ideology on which the country was founded and that let it develop to the height it reached[205]—the above-mentioned effect would naturally be particularly pronounced. Accordingly, security-producing firms committed to the philosophy of protecting and enforcing libertarian law would

[205] Cf. B. Bailyn, The Ideological Origins of the American Revolution, Cambridge, 1967; J. T. Main, The Anti-Federalists: Critics of the Constitution, Chapel Hill, 1961; M. N. Rothbard, Conceived in Liberty, 4 vols., New Rochelle, 1975-1979.

attract the greatest bulk of public support and financial assistance. And while it may be true that some people, and among them especially those who had profited from the old order, might continue their support of a policy of aggression, it is very unlikely that they would be sufficient in number and financial strength to succeed in doing so. Rather, the likely outcome would be that the honest companies would develop the strength needed—alone or in a combined effort and supported in this effort by their own voluntary customers—to check any such emergence of outlaw producers and destroy them wherever and whenever they came into existence.[206] And if

206 Naturally, insurance companies would assume a particularly important role in checking the emergence of outlaw companies. Note M. and L. Tannehill: "Insurance companies, a very important sector of any totally free economy, would have a special incentive to dissociate themselves from any aggressor and, in addition, to bring all their considerable business influence to bear against him. Aggressive violence causes value loss, and the insurance industry would suffer the major cost in most such value losses. An unrestrained aggressor is a walking liability, and no insurance company, however remotely removed from his original aggression, would wish to sustain the risk that he might aggress against one of its own clients next. Besides, aggressors and those who associate with them are more likely to be involved in situations of violence and are, thus, bad insurance risks. An insurance company would probably refuse coverage to such people out of a foresighted desire to minimize any future losses which their aggressions might cause. But even if the company were not motivated by such foresight, it would still be forced to raise their premiums up drastically or cancel their coverage altogether in order to avoid carrying the extra risk involved in their inclination to violence. In a competitive economy, no insurance company could afford to continue covering aggressors and those who had dealings with aggressors and simply pass the cost on to its honest customers; it would soon lose these customers to more reputable firms which could afford to charge less for their insurance coverage.

What would loss of insurance coverage mean in a free economy? Even if [the aggressor] could generate enough force to protect itself against any aggressive or retaliatory force brought against it by any factor or combination of factors, it would still have to go completely without several economic necessities. It could not purchase insurance protection against auto accidents, natural disasters, or contractual disputes. It would have no protection against damage suits resulting from accidents occurring on its property. It is very possible that [it] would even have to do without the services of a fire extinguishing company, since such companies are natural outgrowths of the fire insurance business.

In addition to the terrific penalties imposed by the business ostracism which would naturally follow its aggressive act [it] would have trouble with its employees … . [For] if a defense service agent carried out an order which involved the intentional initiation of force, both the agent and the entrepreneur or manager who gave him the order, as well as any other employees knowledgeably involved, would against all odds the honest security producers should lose their fight to retain a free market in the production of security and an outlaw monopoly reemerged, one would simply have a state again.[207]

In any case, implementing a pure capitalist social system with private producers of security—a system permitting freedom of choice—would necessarily be better than what one has now. Even if such an order should then collapse because too many people were still committed to a policy of aggression against and exploitation of others, mankind would at least have experienced a glorious interlude. And should this order survive, which would seem to be the more likely outcome, it would be the beginning of a system of justice and unheard-of economic prosperity.

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be liable for any damages caused" (M. and L. Tannehill, The Market for Liberty, New York, 1984, pp.110-111).

207 The process of an outlaw company emerging as a state would be even further complicated, since it would have to reacquire the "ideological legitimacy' that marks the existence of the presently existing states and which took them centuries of relentless propaganda to develop. Once this legitimacy is lost through the experience with a pure free market system, it is difficult to imagine how it could ever be easily regained.

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