7 Private military companies

Markets, ethics and economics

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Our ultimate purpose then is not so much to provide a defence of mercenarism, but to attack a certain kind of anti-mercenarism, underpinned by that Machiavellian *virtu*, which extols *inter alia* the virtues of a citizen's willing subordination of his or her personal interest to the communal good.[1]

The perennial quarrel between and among legislators, commentators and practitioners regarding private military companies (PMCs) and private security companies (PSCs) has intensified since the end of the Cold War, and especially since private sector companies contracted to perform military services for states such as Sierra Leone in Africa and Papua New Guinea in southeast Asia.[2] The recent discussion has revolved around (1) the creation of a useful taxonomy of modern non-state forces, (2) a complex of issues regarding legality, legitimacy, accountability, transparency and issues of state sovereignty and economic exploitation and, with all that, the motives of key players such as states, factions in failed states, international organizations, PMCs and business and humanitarian communities, (3) practical aspects and the peacemaking and peacekeeping 'efficiency' of PMCs and (4) the prospects for adequate legislative regulation, executive branch supervision of industry participants and international law.[3] Many of these topics overlap.

Inasmuch as dollars, cents and vested interests are involved, economics plays a role in the debate but it tends to be the sort of economics that non-economists do, an economics inappropriately amalgamated with other fields and topics such as business, finance, budgets, efficiency and cost-effectiveness – as if all of these were synonymous – a pop-economics that has as little to do with economic analysis as a scientific discipline that generates theory, falsifiable hypotheses and empirical tests.[4] To reduce economic analysis to efficiency is like reducing Mona Lisa to her eyes: an incomplete and usually partisan view results. If this only ruffled economists, which might be alright, but when the debate on PMCs swerves to make economic concepts such as efficiency the arbiter of

whether PMCs 'should' or 'should not' be permitted, then the discussion becomes normative and leaves the realm in which economics can claim sole jurisdiction. By analogy, as science can inform about the veracity of certain religious claims but not decide whether one is to believe in supernatural forces, so economics can inform the PMC debate but not decide it. As medicine can explain contributive causes of respiratory disease but not by itself make society switch to the use of non-polluting fuels, so economics can explain the waxing and waning of PMCs but not by itself make interested parties raise or dissolve them.

To be sure, economics – like medicine – can carry normative implications. For instance, there is no question that the way certain totalitarian governments run their economies is severely injurious to those living within their jurisdiction (e.g. North Korea, Zimbabwe), and most people would regard it as unethical to conduct a state's affairs in a way that is harmful to its citizens. But, although it may explain and influence their formation, economics is not primarily about norms.[5] Instead, economics is about how individuals make choices and about the collective outcome these choices generate.[6] One of these outcomes regards the formation and operation of markets.

The purpose of this chapter is to present a set of selected economic concepts and apply them to show just why PMCs are controversial. The first section develops the concepts, the second applies them and the final section concludes. The thesis of this chapter is that what is at issue is not *how* force is organized (i.e. public or private) but how force is *organized* (regulated). One implication is that there is considerable scope to reconcile divergent positions among legislators, commentators and practitioners to work toward a regulatory framework that takes full account of what markets and governments can and cannot do.[7]

Economics

A decision, or *choice* from among alternatives, requires an *objective* the achieving of which is subject to *constraints*. Objectives, be they formulated by individuals or by collectives across the spectrum from families to armies, are the starting points of economic study.[8] In practice, economists leave the explaining of how people come by certain objectives to psychologists, sociologists, anthropologists and other social scientists and instead devote themselves to elucidating the constraints under which choices are made and to recording how changes in constraints lead to changes in the choices made.

The objectives are referred to as preferences. Wholly subjective in nature, examples range from inconsequential personal likes and dislikes – such as the texture, firmness, colour, size and taste of a favourite fruit – to fundamental issues such as how armed force is to be organized. People explain, debate and argue about how and why they arrive at a particular preference and try to convince each other that one objective is preferable to another. As individuals, economists have preferences as well, but as professionals they generally abstain from addressing the issue of preference formation. Preferences constitute a 'black box', only recently being peeked into by a branch of social/economics study – a twig, really – known as behavioural economics. The constraints are grouped into two broad classes, prices and resources. If preferences denote what one wishes to 'get', then prices mark what one must 'give' in exchange, and resources signify the pot of gold from which one can do the giving.

The interaction of preferences with the various possible prices one faces and the resources one can draw on defines one's *demand* for goods and services, an agent's willingness and ability to pay for the benefit the good or service is expected to yield. In an exchange, as one good is received, another good (often, but not necessarily, money) is given up.[9] The benefit received is greater than the value of what is given up, or else the agent would not wish to buy. To purchase, the ratio of benefit to cost has to be greater than one. On occasion, demanders make mistakes and buy goods with a benefit/cost ratio of less than one. But unless the purchaser uses another agent's resources to make the purchase, we do not expect such mistakes to be repeated over time, at least not for the repeat purchase of the same item. People learn. One may buy milk once, but if one does not like it (benefit/cost < 1), one will not buy it again.[10]

Most people enjoy experimenting and like to sample different foods and fashions, for example. What is purchased is not only the expected benefit of the item itself, but also a life-style of searching and sampling. If sampling across items yields ratios below 1, we expect the person to reduce sampling and settle into a routine. Variety can lose its appeal. The expectation of benefits is massively influenced by one's economic, political, cultural and natural environment (e.g. peer pressure, commercial advertisement, trade law, climatic conditions), as are the costs (e.g. peer disapproval, limited income to expend, fear of imprisonment for wishing to 'purchase' political dissent). No one is sovereign.

Likewise, *supply* arises from an agent's willingness and ability to furnish goods. What is given up is the good produced, or rather the resources used in its production, in exchange for which another (usually, but not necessarily, the purchase price in terms of money) is received. The supplier, too, ordinarily will count on a benefit/cost ratio greater than one, or else it would not make sense to supply. On occasion, suppliers make mistakes and they lose money, that is, the benefit received is smaller than the cost. Unless the supplier uses another agent's resources to supply the good, we do not expect the supplier to continue to trade.

Trade, the exchange of goods, refers to two agents' *differential valuation* of two goods being exchanged, one for the other. For example, in the academic labour market, I supply my ability to provide scholarly labour services in exchange for a monetary income (and, perhaps, health, pension and other benefits), and I do this because I ultimately value the money I receive more than the hours I agree to give up in exchange. In contrast, the demander (the university) values my labour services more than the money it has to give up. Although it is common practice to regard me as the supplier and the university as the demander of labour, agents simultaneously are both suppliers and demanders: I supply labour and demand money; the university supplies money and demands labour. My benefit/cost ratio (money/labour) must be greater than one or else I would not wish to trade. Likewise, the university's benefit/cost ratio (labour/money) must be greater than one or else it would not wish to trade.

The ratios of money/labour as compared to labour/money would appear to cancel out. That they do not stems from the fact that I value the dollar I receive more than the university values the same dollar it gives up, and that I value the hour I give up less than the university values the hour it receives. The same dollar has two valuations, as does the same hour. Even more stylized, if I have an orange and you have an apple, we both might find that I'd like your apple and you'd like my orange. Naturally, we exchange and both of us will be the happier for it. Different valuations of two items by two agents drives trade that is perceived as mutually beneficial (benefit/cost ratios > 1).

Mutually beneficial trade by one pair of demander and supplier can bestow benefits or impose costs upon others who are not party to the trade. If my mining company hires a private security company, there may result spill-over effects (*externalities*) to those living in the neighbourhood around the mining area. Whether these effects are positive or negative is an empirical matter. If overall neighbourhood security improves, the effect would be positive: people receive a benefit for which they did not pay. If overall neighbourhood security declines, the effect would be negative: people bear a cost for which they are not compensated. The external effects can be mixed in that some in the neighbourhood receive a benefit while others suffer a cost. Even the prospect of differential externalities can lead to unsettling community dynamics, with those who expect to gain being opposed by those who foresee uncompensated losses. But even if a local community were only to gain or only to lose, larger communities' interests may be differentially affected. If we suppose, for the sake of the argument, that everyone within a local community agreed that the hiring of PMCs in Sierra Leone in the 1990s had resulted only in benefits, then we would still be arguing the pros and cons of the employment of PMCs elsewhere, or of employing them in Sierra Leone at another time.

Trade implies *property*. One cannot trade away resources one does not own. But since resource endowments are unequally distributed, the sum total of trade necessarily benefits the rich more than the poor, even as each trade the poor undertake does benefit them as well or else they would not trade out of their smaller endowments. The poor are equally smart traders, only more constrained in their means. By force of confiscation (*taxation*), some societies compel the redistribution of earned current income and accumulated assets so that the poor have more resources to trade with. Since this discourages the accumulation of assets available for redistribution in the first place, other societies prefer to stress voluntary transfers (grants) and equal opportunity for skill development to enhance trading potentials in current and future generations. In truth, societies mix approaches to redistribution, differing only in the balance chosen. In addition, even the poor can trade against expected *future* property and endowments. For example, banks loan money to students against repayment in the future.

Trade implies *contract*. I agree to give you my orange, and you agree to give me your apple. Contracts can be *honoured* or not, and if the latter then they must be *enforced* (or not) and *punishment* must be meted out (or not). If I give you my orange, and you give me your apple, everything is fine. If I give you my orange, and you do not give me your apple, I will seek to enforce the contract. I can run after you myself and take back the apple (self-policing), or I can run to an arbiter (external policing) to secure the apple in my stead. If I run after you, I can fail to catch you, but so can the arbiter. If I catch you I must beat you up – just as I would expect to be beaten up had I broken the contract – or else running away with the orange (or the apple) would on average be profitable.[11] When a contract is not honoured, one side to the trade loses (benefit/cost < 1). In a society where contracts routinely fail to be honoured, trade will decline and otherwise mutually beneficial exchange will not take place. Society becomes impoverished as each agent is compelled to make due with his or her own resources, unable to trade some or all of them for higher-valued resources another agent might offer.

Agents realize that in the long run when trade fails they all arrive at the socially destructive end of what is privately profitable in the short run – reneging on contracts (cheating). For their own private long-run good, they will seek collective *remedies*. In addition to *law* and *culture* at the societal level – both costly – they develop *trust* and *trustworthiness* (i.e. *reputation*), or *discipline*, at the individual level.[12] One foregoes the opportunity to cheat today in order to be able to trade for gain tomorrow. One engages in intertemporal trade with oneself: the long-run benefit of honesty is greater than the short-run cost of giving up benefits to be had from cheating. This is why settled communities have always viewed itinerant traders with suspicion. He who has *mobility* need not come back and has greater incentive to cheat. Therefore, the stationary agent will want to place a burden of proof on the mobile agent who may be asked to leave behind deposits or securities such as a person who is part of the trader's entourage, that is, a *hostage* to be released when the trade is completed. But itinerant traders needed to be wary as well: he who is

settled is likely to have more friends ready at hand to compel an unwilling exchange. Dangers of *shirking* or of *appropriation* (partial or no contract fulfilment) lurk in every trade. Trade entails *risk*.

Like law and culture (law, for short), the development of trust and reputation (trust, for short) are costly. They require time (repeat transactions) and the development of risk management tools. Well-off societies are societies that have managed to evolve high levels of trust or law relative to the cost of providing them. *Competition* arises only under relative equality of trust or law. If I have an orange to offer and one kid offers one apple but a second offers two, then I will trade with the second kid only under comparable conditions of trust or law. If I am not sure of the trade with the second kid's two apples, I may opt for the safer choice of the trade with the first kid's single apple. The degree of *certainty* is an important determinant of trade volume. If trade relies on degrees of certainty, *signals* must be developed that reliably *inform* about qualities of trust or law (hence brand-name marketing, or tradesmen advertising their services as bonded and insured), but information can be manipulated, just as culture can be flouted and law corrupted which is why all these three – information, culture and law – are juicy targets for abuse.[13]

The danger of abuse ties into the all-too-common confusion of *free markets* with *unfettered markets*. To ensure the securing of mutual benefit, societies see to it that free markets are appropriately *regulated*. Unfettered markets are unregulated or ill-regulated, and the risk of abuse and failure to deliver maximum mutual benefits is high. Numerous conditions that make for 'market failure' have been identified.[14] Many market failures can be mitigated by appropriate intervention (i.e. regulation) but the converse danger – 'government failure' – also arises. Economists passionately argue in favour of the virtue of well-regulated free markets; none argue for unfettered markets. In contrast, market participants constantly try to gain advantage by *lobbying* for the presence or absence of regulations, whichever happens to favour one side of the market over the other. If successful, this results in *market power*, the power to skew the benefit/cost ratio in one's favour. Problems stem not – as many mistakenly believe – from the presence of well-regulated free markets but from their very absence.

Not all markets can be equally well-regulated. One reason for this is that regulation requires (cultural or legal) jurisdiction, within and cross-jurisdictional agreement on what is to be regulated, and agreed powers of enforcement. Since even spouses have difficulty agreeing on how to regulate (and enforce) their children's behaviour, it does not surprise that scaled up to communal, even global, dimensions, the problems to be tackled would multiply. Consequently, markets tend to be either over or under regulated. Market conditions change, and vested interests – each vying for influence – have to be reconciled. The resulting compromises are not necessarily ideal. Good law sets market participants free to trade for mutual benefit, but the law can also imprison either by inhibiting otherwise beneficial exchange when undue market power is permitted or created or by compelling otherwise non-beneficial exchange. The economists' prototype of the 'free market' refers to an ideal middle ground that permits society at large to allocate its resources in such a way as to maximize mutual benefits from trade. Such markets, and only such markets, are referred to as *efficient*.

Efficiency, then, is a technical concept within economics, and its achievement is predicated upon a set of conditions that must be met. Some of these have been outlined in the foregoing pages, such as the requirement for the presence of reliable information available in equal measure and quality to both sides of the trade, the presence of enforceable contracts, the presence of regulation and conflict management tools to resolve conflicts over resources and their (re)distribution, pricing, market power, agenda setting for private and collective preference formation, and variegated other issues. Dispute resolution mechanisms need to be formulated, funded and maintained, both within and across societies. Thus, far beyond mere law, markets are very much based upon *ethics* and *morals* – the code of values that individuals and the groups they form establish, and behaviour in accordance with the code.

Private and public force – a false dichotomy

If it needs to be spelled out, the foregoing pages illustrate how the ample differences among commentators on the issue of PMCs can arise. Those who would reduce the debate to whether or not free markets for PMCs 'work' betray a measure of ignorance of the economics of markets. Everything is conditional. As Shearer and others have pointed out, in practical terms, some PMCs have in fact stopped violence and slaughter. The conditions for the market to deliver mutual benefits had been attained. Detractors of PMCs will have to explain how to justify the continuing slaughter in many African and other states. Waiting for state-approved or UN-sanctioned intervention has cost millions of people their very lives. By the same token, there is no question whether PMCs' abuses have taken place or not. The conditions for markets to deliver mutual benefits have not been attained. The same of course is true for *public* forces which also deliver net benefits to society only when certain conditions hold, frequently identical to those applied to private forces such as transparency and accountability.

Some in the PMC industry call for market regulation. This does not surprise, as regulation comes with a complement of licensing or similar devices that limit market entry. Keeping the competition out of course increases profits of those who are inside. We have seen this in other industries, even mundane ones such as dieticians or hairdressers. But as this chapter has explained, the call for regulation should not be scoffed at

and dismissed as some commentators have done. Instead, the call for regulation should be welcomed as it permits civil society to specify the rules of engagement. Once proper regulation is in place, new competitors will arise because the vast majority of business investors prefer a stable, certain regulatory environment over an uncertain one. Had global civil society established such rules by the late 1990s, instead of being tied up in a tiff over the morality or immorality of 'mercenary' services, the subsequent slaughter in western Sudan and elsewhere might have been more limited.

There are additional complications. For example, in the United States, prostitution (sale of in-person sexual services)[15] is illegal in most states, but not in Nevada. Underage sex is outlawed, unless an underage bride (rarely a groom) is married off 'legally'. Gambling is illegal in most states, but not when it involves 'Indian reservations' or state-sanctioned gambling (lotteries that amount to self-taxation by the poor). Many non-medicinal drugs are classified as illicit, but not alcohol and tobacco, both of which are powerfully addictive. It is illegal to acquire some categories of firearms, but plenty of other categories are legally and easily purchased at local retail outlets. Armed security guards for private housing compounds, office buildings or shopping malls are easily and legally hired, but the 'security' offered by criminal protection rackets cannot be legally hired. International trade in endangered species or pathogens is generally outlawed, and yet there are exceptions involving zoological associations and medical researchers. In a word, many markets for functionally identical goods or services exist, yet a part of these markets is deemed legal, another is not. Which is which depends on social mores – the ethics of the group or groups in question. It is these social mores that determine which items are considered 'goods' or 'services' and which are 'bads' or 'disservices'. The function of regulation of markets for goods and services is to procure maximum mutual benefits among traders (demanders and suppliers); likewise, the function of regulation of markets for bads and disservices is to procure minimum mutual benefits (to regulate these markets out of business altogether).

Just which is a good or a bad, a service or a disservice, depends on one's views. Social mores change. What once was regarded as immoral has become commonplace, and vice versa. Taking photographs of people once was, and in some societies still is, considered immoral behaviour ('stealing a person's soul') but is now routine. The habitual use of foul language, rude behaviour and violence once were considered marks of a depraved person but is now standard fare in popular culture. Tarring, feathering and flogging once were considered acceptable punishments for miscreants but – thankfully – not anymore.[16] Along with social mores, market conditions change. Social mores influence market demand and supply. Ancient Rome had a standing army. Empires ranging from the Inca and Aztecs to those of Egypt, India and China also managed to accumulate a public monopoly of force, the better to obtain monopoly rents (taxes) for rulers by offering peace to their subjects.[17] With Rome, its standing army fell as well. By the time of the Italian Renaissance, the use of PMCs– the *condottieri* – was commonplace throughout Europe. Machiavelli's famous rallying cry against the employment of mercenaries came after the high-point of their use had already passed. Apart from political factors and changes in military technology, a key turning point was that the contracts after whom the *condottieri* – the contractors – are named proved too onerous to enforce.[18] Mutual benefits were scant.

Standing armies revived, even well before 1648, but with hefty mixtures of 'nationals' and 'foreigners' – in the American Civil War as in the European colonial wars in the mid-1800s for instance – and saw their more purely nationalistic heyday only in the twentieth century. The aberration is not the use of private forces in warfare, but the almost exclusive use of 'nationals' in state forces during the twentieth century. It is puzzling that in a world in which young, educated, mobile people are straining to burst nation-state borders, serious scholars would wish to make so much hay out of one's 'nationality'. Are Kurds in Iraq Iraqis? Are nationalized Turks Germans? Are South Africans with a British passport British? Just who is Indian or Indonesian? By whose design and natural right are people to submit and identify themselves with their putative 'nation'?[19]

With Lynch and Walsh (2000), I am so not much arguing in favour of PMCs as to challenge a certain type of anti-PMC cogitation that divulges more fear than reasoning. For an economist the key is not *how* force is organized (private or public provision) but how force is *organized* (regulated). The differentiation between private and public force is an empty differentiation. A false dichotomy, it distracts from the real issue, the proper regulation of the market for force. We are not at any rate dealing with a binary variable – public or private forces – but with a continuous variable, one with many gradations from private security guards at Australian shopping malls, to privately guarded neighbourhoods in South Africa, to community policing in Brazil, to university police at American campuses, to private detectives hired by suspicious spouses or for industrial counter-espionage, to private intelligence services hired by public agencies, to private security companies hired by mining corporations in Asia or humanitarian relief agencies in Africa, to those hired by international organizations such as the United Nations in support of peacekeeping operations. Further more, the United States, to take a prominent example, operates military-nuclear installations and research laboratories under private management, it hires its public armed force on the private labour market, and it builds its considerable arsenal of weaponry in factories run by privately owned, stock-market traded firms. The key in all cases is effective regulation by the public sector (society's government). The emergence of an expanded field of military-related activities served by private-sector actors thus cannot be the reason *per se* for the discomfort many feel with PMCs. In principle, these 'new' activities could be regulated, just as the 'old' ones have been regulated.

Contrary to much scholarly, political and public opinion the debate surrounding the privatization of force is not about economic efficiency – that is a canard – but about regulation, that is, accountability and legitimacy,[20] and an assessment of contracts and transaction costs within the regulatory framework.[21] Sometime a case can be made for PMCs, sometimes (maybe many times) not. Just as there are ample cases of *PMCs* that operate unaccountably and illegitimately, there are equally ample cases of *public* military forces that operate in like fashion. Similarly, just as private *military* companies are sometimes caught doing awful things, so private *non-military* companies are sometimes caught doing awful things as well: the US accounting scandals of the 2000s serve as an example. Further, many of the commentators that express fear of private *military* companies running amok would, one hopes, also express shock at *civilian* leadership if, in the name of democracy, it pressed armed forces into service. The notion that civilian leaders can be as dangerous as (private or public) military leaders should not be new to observers of political history.

The history of organizing human warfare shows cyclical movement: sometimes more private, sometimes more public, always a mixture, rarely the exclusive provenance of one or the other. What changes are the conditions under which this or that organizing principle is better suited to the purpose of war-making, or peacekeeping. Like ethics, the organization of warfare continuously evolves in response to changes in the environment. That environment can be influenced, and in my view it would behoove commentators to lay aside the 'good' or 'bad' mentality with regard to PMCs that since the late 1990s has effectively condemned victims by the thousands to the absence of any humanity at all.

Conclusion

Most people would agree that world society's ultimate objective, the ultimate benefit sought, is peace and security. If that is the demand, it will be provided in some fashion, 'privately' or 'publicly', even if imperfectly. Even tyrants need to purchase the labour services of their henchmen, and modern nation-states purchase the services of 'privates' on the labour market as well.[22] Neither implies efficiency, but both imply trade. As this chapter has illustrated, trade depends on a very large complex of factors and conditions that must be met for markets to function as intended, to yield the net benefits its participants expect. Ann Markusen (2003) specifies three minimum conditions for economically successful privatization of force: (1) 'the service to be contracted by the public sector must be open to true and sustained competition,' (2) 'the client himself must have a clear understanding of what kind of services are expected,' and (3) 'the client must be in a position to control and verify the services delivered.'[23] This chapter has identified many more. At issue is not *how* force is organized (public or private provision) but how *organized* the force is (regulated)? The use of 'public' force can be just as efficient or inefficient as the use of 'private' force. To achieve proper regulation of force, not its mixture, is the task at hand. This is not a new realization or conclusion,[24] but it is arrived at from a more thoroughly economic perspective than has hitherto been the case.

Notes

1 T. Lynch and A.J. Walsh, 'The Good Mercenary?', *The Journal of Political Philosophy*, 2000, Vol. 8(2), p. 134.

2 Unless otherwise noted, the remainder of this chapters use 'PMCs' as a convenient shorthand to denote all non-state armed forces and associated services.

3 A sampling of the literature: On taxonomy see, for example, Herbert Wulf, *Internationalization and Privatizing War and Peace*, New York: Palgrave Macmillan, 2005, esp. pp. 43–7, and Robert Mandel, *Armies without States: The Privatization of Security*, Boulder, CO: Rienner, 2002. On mercenary history, see, for example, Janice E. Thomson, *Mercenaries, Pirates, and Sovereigns: State Building and Extraterritorial Violence in Early Modern Europe*, Princeton, NJ: Princeton University Press, 1996; Deborah Avant, 'From Mercenary to Citizen Armies: Explaining Change in the Practice of War', *International Organization*, 2000, Vol. 54(1), pp. 41–72; and J. Brauer and H. van Tuyll, *How Much Does This Castle Cost? Economics and Military History*, Chicago, IL: The University of Chicago Press, forthcoming in Spring 2008. On contemporary relations between and among security providers, private corporate interests, state interests and 'end-user' citizen interests, see, for example, Peter W. Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, Ithaca, NY: Cornell University Press, 2003, and K.R. Nossal, 'Roland Goes Corporate: Mercenaries and Transnational Security Corporations in the Post-Cold War Era', *Civil Wars*, 1998, Vol. 1(1), pp. 16–35. On discussions about the security gap that failed states and failed UN actions create for PMCs to enter, see, for example, David Shearer, *Private Armies and Military Intervention*, Adelphi Paper 316, International Institute for Strategic Studies, Oxford: Oxford University Press, 1998; K. O'Brien, 'Military-Advisory Groups and African Security: Privatized Peacekeeping?', *International Peacekeeping*, 1998, Vol. 5(3), pp. 78–105, and Doug Brooks, 'Messiahs or Mercenaries: The Future of International Private Military Services', *International Peacekeeping*, 2000, Vol. 7, pp. 129–44 on one side, and N. Cooper, 'Peaceful Warriors and Warring Peacemakers', *The Economics of Peace and Security Journal*, 2006, Vol. 1(1), pp. 20–4, D.J. Francis, 'Mercenary Intervention in Sierra Leone: Providing National Security or International Exploitation?', *Third World Quarterly*, 1999, Vol. 20(2), pp. 319–38, Abdel-Fatau Musah and J.K. Fayemi (eds), *Mercenaries: An African Security Dilemma*, London: Pluto, 2000; William Reno, 'Internal Wars, Private Enterprise, and the Shift in Strong State–Weak State Relations', *International Politics*, 2003, Vol. 37, pp. 57–74; and X. Renou, 'Private Military Companies against Development', *Oxford Development Studies*, 2005, vol. 33(1), pp. 107–15. On international law of mercenaries, see, for example, J.C. Zarate, 'The Emergence of a New Dog of War: Private International Security Companies, International Law, and the New World Disorder', *Stanford Journal of International Law*, 1998, Vol. 34. Among many others, Abdel-Fatau Musah, 'Privatization of Security, Arms Proliferation and the Process of State Collapse in Africa', *Development and Change*, 2002, Vol. 33(5), pp. 911–33 argues that PMCs undermine government accountability, at least in the African context. S.J. Zamparelli, 'Competitive Sourcing and Privatization. Contractors on the Battlefield: What Have We Signed up for?', *Air Force Journal of Logistics*, 1999, Vol. 23(3), pp. 8–17 provides a view on private contractors from within the US Air Force. On regulation, see, for example, *UK Green* Paper, Private Military Companies: Options for Regulation, February 2002; Anna Leander, 'The Market for Force and Public Security: The Destabilizing Consequences of Private Military Companies', *Journal of Peace Research*, 2005, Vol. 42(5), pp. 605–22. Much of the literature addresses these and other themes simultaneously.

4 Few *bona fide* economists have written on PMCs. See, for example, J. Brauer, 'An Economic Perspective on Mercenaries, Military Companies, and the Privatisation of Force', *Cambridge Review of International Affairs*, 1999, Vol. 13(1), pp. 130–46; E. Fredland, and A. Kendry, 'The Privatization of Military Force: Economic Virtues, Vices and Government Responsibility', *Cambridge Review of International Affairs*, 1999, Vol. 13(1), pp. 147–64; and E. Fredland, 'Outsourcing Military Force: A Transactions Cost Perspective on the Role of Military Companies', *Defense and Peace Economics*, 2004, Vol. 15(3), pp. 205–19.

5 On the economics of norm-formation, see, for example, K. Binmore, *Natural Justice*, Oxford: Oxford University Press, 2005. Also see George A. Akerlof, 'The Missing Motivation in Macroeconomics', Presidential address, American Economic Association. Chicago, IL. 6 January 2007, www.aeaweb.org/annual_mtg_papers/2007/0106_1640_0101.pdf, accessed 10 January 2007.

6 See, for example, T. Schelling, *Micromotives and Macrobehavior*, New York: W.W. Norton, 1978.

7 A crucial distinction needs to be kept in mind. The theme of this chapter concerns the private or public *provision* of a good, not the public or private *character* of a good: a rival, excludable private good can be publicly provided (e.g. car license plates); similarly, a non-rival, non-excludable public good can be privately provided (e.g. an over-the-air broadcast by a private radio or TV station). On the question of the character of peace and security as public or private goods, see Brauer, 'An Economic Perspective on Mercenaries, Military Companies, and the Privatisation of Force'.

8 Actually, economics is not limited to the human species. As all living beings have to produce, (re)distribute and consume, economics may be viewed as part of biology. See, for example, G.J. Vermeij, *Nature: An Economic History*, Princeton, NJ: Princeton University Press 2004.

9 For convenience, the 'goods and services' phrase is henceforth abbreviated to 'goods' only. But it is always meant to imply both. Goods are tangible items; services are intangibles.

10 This is simplifying for the sake of exposition. For up-to-date research on consumer 'utility maximization', and consistent 'mistakes' people make, see, for example, D. Kahneman, and R.H. Thaler, 'Anomalies: Utility Maximization and Experienced Utility', *Journal of Economic Perspectives*, 2006, Vol. 20(1), pp. 221–34.

11 This statement may surprise but follows from logic. If every contract breaker who ran away were caught, then running away would be futile, and so would contract-breaking. It follows that, on average, contract-breakers must get away at least some of the time. And from this it follows in turn that the combination of benefits derived from trade (exchange) and benefits derived from appropriation (theft) increases the average benefit/cost ratio to contract-breakers, wherefore the incentive is for everyone to break contracts – in which case voluntary trade declines. Thus, contract breakers must be punished, at least

some of the time. To the uninitiated this may seem fanciful but experimental economics – published in no less a journal than *Science* – confirms that (laboratory) societies with punishment mechanisms trade, benefit and prosper at higher levels than those without (see; Ö. Gürerk, B. Irlenbusch and B. Rockenback, 'The Competitive Advantage of Sanctioning Institutions', *Science*, 2006, Vol. 312(5770), pp. 108–11, and J. Henrich, 'Cooperation, Punishment, and the Evolution of Human Institutions', *Science*, 2006, Vol. 312(5770), pp. 60–1, and the literature cited therein).

12 Both law and culture are costly because they require enforcement agencies. Both require resources or opportunities to be given up to fund or sustain law and culture. Both law and culture require further resources to ensure supervision and protection from abuse. Note that small groups such as families or villages do not have law. They have culture. The logic of law requires an exactitude, a measure of nuance, thoughtfulness and impartiality to uphold a standard of fairness and equal treatment under law that culture cannot afford. Law is expensive. It requires a minimum threshold of people to finance it and is suitable only for larger communities such as states. In contrast, culture makes due: it is 'folk-law', good enough until larger structures or purposes require and justify the addition of a formal codex of law. Neither law nor culture necessarily offer justice, which is a different concern altogether.

13 The attempt by a number of PMCs to build a brand name for themselves is, economically, an attempt to provide information while holding themselves 'hostage' to future *lack* of contracts. If PMCs renege on contracted promises, word will spread and future contracts will be harder to get. The value of any brand stems from this quality of addressing customer uncertainty by reassuring potential customers that the supplier will suffer as well if the demander is not satisfied with the good or service provided.

14 One of these failures concerns the public or private *consumption character* of a good. The traditional example of 'national defence' says that once national defence is provided, no citizen can feasibly be excluded from the consumption benefits (i.e., the use) that such defence offers. National defence is a public good. But if a citizen cannot be excluded from receiving the benefit, there is little reason for him or her to contribute to the cost of provision. The citizen becomes a 'free-rider'. And so does every other citizen. Therefore, funds cannot be collected to provide the good in the first place, even if defence is a desirable good to have. Thus, the *private provision* of a *public good* fails, and it must be provided through a coerced payment, for example, taxation by government. That payment, however, addresses only the revenue side: whether government then chooses to expend the funds to raise a 'public' army or to hire private military and security companies is an entirely different issue, one that is the theme of this chapter.

15 In-person sexual services as distinct from, say, telephone sex, printed or audio-visual sexually explicit material.

16 J. Mueller, 'The Obsolescence of Major War', *Bulletin of Peace Proposals*, 1990, Vol. 21(3), pp. 321–8, esp. pp. 322–3.

17 M Olson, 'Dictatorship, Democracy, and Development', *American Political Science Review*, 1993, Vol. 87(3), pp. 567–76. Also see E. Hutchful, 'Understanding the African Security Crisis,' in A.F. Musah and J.K. Fayemi (eds), *Mercenaries: An African Security Dilemma*, London: Pluto, 2000, p. 212, and literature cited there. The public provision of force *can* but not necessarily *must* be as economically desirable as private provision of force. Both (tyrannical) empires and (democratic) nation-states need to raise revenue (taxes) but how these are expended – on 'public' or 'private' forces, or a mix thereof – is a different matter. Either can be efficient or inefficient; there no a priori telling which will be the case.

18 Machiavelli's *The Prince* is frequently referred to, sometimes cited, less read and rarely understood. Brauer and van Tuyll, *How Much Does This Castle Cost? Economics and Military History*, ch. 3 lays out the details.

19 A.K. Sen, *Identity and Violence: The Illusion of Destiny*, New York: W.W. Norton, 2006.

20 For an early piece on this, see Brauer, *How Much Does This Castle Cost?*

21 See, for example, Fredland 'Outsourcing Military Force: A Transactions Cost Perspective on the Role of Military Companies'.

22 This 'trade' can be involuntary and compelled, for instance by conscripting forces. In that case, the benefit/cost ratio for at least some of the conscripted persons is less than one (for if it were greater than one for all conscripts there would be no need to draft them) and hence an inefficient way of organizing force. On conscription, see P. Poutvaara and A. Wagener, 'Conscription: Economic Costs and Political Allure', *The Economics of Peace and Security Journal*, 2007, Vol. 2(1), pp. 6–15.

23 A. Markusen,. 'The Case against Privatizing National Security', *Governance*, 2003, vol. 16(4), pp. 471–501 quoted in Wulf, *Internationalization and Privatizing War and Peace*, p. 59.

24 See, for example, the papers in Mills, Greg and Stremlau, John (eds), *The Privatization of Security in Africa*, Johannesburg: The South African Institute of International Affairs, 1999; also see Deborah Avant, 'The Privatization of Security and Change in the Control of Force', *International Studies Perspectives*, 2004, Vol. 5, pp. 153–7 and Wulf, *Internationalization and Privatizing War and Peace.*