

Principles of Economics – Lecture 17 (Defense) • Study Notes

By Saifedean Ammous

Big Picture

- Defense is an **economic good**: it has utility, is scarce, and must be economized.
 - Violence destroys civilization, but **defensive violence** (protecting property from aggression) is legitimate.
 - The state is not the solution to defense — it is itself the **largest initiator of violence**.
 - Real-world evidence: there are more private security guards globally than state police, showing defense is already primarily market-provided.
-

Core Claims

1. **Defense as an Economic Good**
2. Scarce: requires real resources (guards, weapons, fortifications).
3. Valued: people want safety from aggression.
4. Can be produced privately like any other good.
5. **Defense vs. Aggression**
6. Initiation of violence = coercion, not an economic good.
7. Defensive violence = legitimate protection of property rights.
8. Aggressors forfeit their claim to safety by violating others' rights.
9. **Private Provision of Defense**
10. Market for locks, alarms, security services, weapons, insurance, arbitration.
11. Already larger than state provision — banks, shops, and companies hire their own guards.
12. The state protects itself first, citizens second.

13. **Economic Calculation & Defense**
 14. Only private property and prices allow rational allocation of defense resources.
 15. Example: how many guards should protect a billionaire's house vs. a school?
Only prices can decide.
 16. State allocation = arbitrary, political, inefficient.
 17. **Law & Order as Economic Goods**
 18. Historical precedents:
 - **British Common Law**: emerged from private courts, no monopoly.
 - **Lex Mercatoria** and **Admiralty Law**: voluntary merchant and maritime courts.
 19. Private arbitration today proves law doesn't need a monopoly.
 20. **Weapons & Capitalism**
 21. Advanced weapons possible only through capital accumulation and division of labor.
 22. Even aggressors rely on markets for their tools of violence.
 23. Productivity and wealth, not raw violence, determine military success.
-

Mises on Secession

- Mises supported the **right of self-determination**: every village or district should be free to secede.
 - True security comes when governments are forced to compete for citizens like businesses compete for customers.
 - Without secession rights, government monopolies degenerate into coercion.
-

Failure of State Monopolies

- **Police**: underprovide protection, often harass citizens.
- **Military**: wastes resources, manufactures conflicts to extract taxes.
- **Courts**: slow, politicized, detached from customer needs.
- Tax-funded monopolies lack profit-and-loss discipline, so they misallocate

resources.

Market Alternatives

1. **Self-Defense:** legitimate use of force to protect property.
 2. **Mutual Contracts:** communities agree on courts, arbitration, and defense providers.
 3. **Ostracism & Boycotts:** non-violent enforcement of norms.
 4. **Insurance-Linked Defense:** insurers fund protection to reduce payouts.
 5. **Exit Rights:** secession as ultimate check on abusive governments.
-

Key Concepts & Mental Models

- **Defense = scarce good;** requires economizing like any other.
 - **Aggression vs. defense** distinction is central.
 - **Economic calculation problem** applies to defense and law.
 - **Common law as emergent order** vs. state monopoly law.
 - **Exit (secession)** as superior to voice (voting).
-

Quotable Ideas

- “Defense is an economic good like any other.” — Ammous
- “The state is the largest gang of thugs.” — Ammous
- “Property rights exist independently of the state; the state’s legitimacy derives from respecting them.” — Ammous
- “Security provided by the market is reality, not utopia.” — Ammous

Study Prompts

- Why is defense considered an economic good?
- What distinguishes defense from aggression?
- How does the calculation problem apply to police allocation?
- Give historical examples of law without monopolies.
- How do secession rights transform government into a market actor?
- Why do monopolies in defense inevitably fail?

TL;DR

Defense is not a special case requiring state monopoly — it is simply another scarce good. Markets already provide more defense than governments, from security guards to arbitration courts. Aggression is never an economic good, but defensive force is legitimate. State monopolies fail because they cannot calculate, conserve resources, or serve citizens; they protect themselves, not the public. History shows law and defense can emerge from voluntary arrangements. True security arises when people have property rights, the freedom to choose defense providers, and the right to secede from coercive monopolies.
