

# FREE MARKET DEFENCE:

## ANARCHIST INSURANCE WILL WORK BEST

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This paper will demonstrate the possibility for spontaneous economic interaction to generate funding for the defence of a territorial area. In constructing our theory of free market defence we shall make three assumptions which are traditionally considered hostile to an anarchist society, and which are said to justify the existence of a coercively funded military. These assumptions are firstly that other states will continue to exist outside the free market society, secondly that these states will for whatever reason present a threat to the free market society in that they (or at least some of them) would desire to invade and impose their rule upon the society, and thirdly we will assume that the individuals constituting the free market society will be largely self-interested, without any particular altruism which would lead them freely to contribute to any defensive scheme. All three of these assumptions are questionable, and to the extent that each is incorrect the security of a free market society becomes even more apparent. We will make two further assumptions which are not as easy to bring into question. The first of these is that taxation, regulation and oppression of civil liberties decrease property values within the society in which these practices exist; the flip side of this coin being that the absence of these practices increases the value of property. The second further assumption is that those in charge of the states which continue to exist desire the continued existence of their own state, and will conduct their actions toward the free market society with the same level of rationality as they would towards any state. This last assumption would indicate that no state would be willing to spend resources invading another territory which it could not be justified by the value of the territory it seeks to invade, and that no state would willingly follow a policy which would lead to its own destruction. This assumption, if true, shows that a free market society need not necessarily be impervious to invasion by the world's strongest superpower (few states have any such defence) but only that its defence must be such that it can inflict costs upon an outsider which outweigh the benefits from invasion.

### INVASION INSURANCE

We have stated that a free market society, devoid of the taxation, regulation, and oppression of civil liberties associated with the state, would attract investment which would escalate property values. The property values which would increase would be industrial/commercial property, e.g. land, buildings, machinery etc. and residential property, e.g. houses. These values would escalate due to the demand placed upon limited resources (e.g. limited land area) by those desiring higher profits/wages/standard of living and personal freedom. In the event of the reimposition of a state, such property values would fall to reflect the level of coercion reimposed, so an invasion from an external power would considerably reduce the value of property owned within the invaded free market society. We know, from the existence of many

insurance contracts held to protect against risk, that human economic behaviour is characterised by risk aversity. It is therefore reasonable to expect that individuals who wished to take advantage of the opportunities in the free market society, but who were concerned about the risk to their investment from invasion, would seek insurance against an invasion. Many kinds of financial institution could be developed to enable such insurance,<sup>1</sup> for the purpose of this essay we will assume that such insurance is provided by insurance companies offering 'invasion insurance' as part of insurance contracts to cover financial loss to the value of property resulting from the reimposition of a state.<sup>2</sup>

Such insurance agreements would place huge financial liability on those offering the insurance; how huge this liability would be is impossible to anticipate although several factors indicate its magnitude. The value of property owned in a country the size of the UK must be worth trillions of pounds. We know from comparisons between different countries that relative differences in economic predation and abuse or recognition of civil liberties has a significant effect on economic wealth and property values. A sharp contrast could be drawn between a free market society and any contemporary state in terms of economic and personal freedom (state expenditure in the UK is around 40% of GNP it is higher in most European countries). From these three considerations we can anticipate a large percentage increase in property values to accompany the overthrow of the state, how large is impossible to predict but in a society with trillions of pounds worth of property every 10% increase in the value of insured property would impose a liability on insurance companies of hundreds of billions of pounds (the insurance companies are insuring against the fall in the value in property which would follow invasion). So even an unrealistically small 10% increase in the value of property (much less than the UK property boom of the 1980's which was produced by a much lower level of stimulus), would impose considerable financial burden against the insuring institutions.

The potential of such a large pay-out would provide strong incentives for the insurance industry to take preventative measures to avoid such costs. No single insurance company would wish to fund a defence programme since it would not wish to meet all the costs of a programme from which it would only receive a share of the benefit, however inaction would leave it and all other insurance companies open to huge financial liabilities. It would therefore be rational for a contract to be proposed for each insurance company to sign, committing it to pay towards a fund to defend the territory in which the free market society resides. Such a contract could commit each insurance company to contribute towards an agreed defensive programme in proportion to the level of liability it faced in the event of a successful invasion; a contract of this nature, which would only come into force when all companies had agreed to it, would be equally attractive to all insurance companies regardless of their size or financial liability.

### DEFENCE — NOT AGGRESSION

The financial liability facing the insurance industry would, if no cheaper effective defence could be found, justify sufficient funding for a conventional military to defend the territory. However the insurance industry would only be concerned with defence and not external aggression (under the many guises it is currently justified), and would have no interest in national prestige, thus many options would significantly undercut current defence budgets. Two schemes to replace a conventional military could be considered. Firstly they may consider financial payments to a defensive alliance (e.g. NATO) in order to receive defence from it. Secondly they may consider the possession of a nuclear deterrent, such as two or three nuclear submarines (given orders to retaliate uncompromisingly), with the capacity to hit and destroy an invading country. Whatever the decision of the insurance industry we can be sure that it would seek a defence scheme which was credible in the eyes of threatening foreign powers, and as cost efficient as was consistent with its defensive objectives; the industry has no interest in spending more than is needed to meet its objectives, but if its objectives are not met it would face a huge liability.



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## DIMINISHED INCENTIVE?

Two possible objections to the theory so far developed must now be addressed. The first objection is that once a defensive programme is established it no longer remains rational to have insurance against invasion. This would enable one to take advantage of cheaper insurance by purchasing reduced price insurance contracts with new entrants to the insurance market who, not being party to the initial defence funding contract were not liable for contributions to the defence fund, but who were still able to offer insurance against all liabilities apart from defence.<sup>3</sup> To phrase this another way, while the defence scheme is established the incentive for insurance against invasion is diminished, and as such the very process which creates the liabilities on insurance companies, which creates the motivation for a defence fund, is destroyed. However once the defence fund is destroyed it immediately becomes rational once more to take out invasion insurance, whereupon the same process is initiated and the defence fund is re-established, whereupon it becomes irrational to have defence insurance once more, etc. etc. What this demonstrates is that the rationality of having defence insurance could be thrown into a state of constant flux. It is unlikely, however, that individuals or corporations would wish continually to take out and then terminate invasion insurance policies, particularly when one considers that if one were without insurance at the moment when a defence fund became unviable and if an invasion occurred before one could take out such insurance one would suffer considerable financial loss. The risk of being invaded at a time when one is not insured against invasion is liable to outweigh any benefits from continually changing policies. Further to which it should be noted that as people began to quit taking out insurance against invasion the future of the defence fund would be brought into question prior to its complete collapse, and the rationality of taking out invasion insurance would reassert itself; it is likely that some sort of 'equilibrium' would exist, with enough property being insured to provide the necessary incentives for the defence fund to be kept in existence.

## IMMUNITY FROM LIABILITY?

A second objection would be that the insurance companies would not be concerned with the prospect of invasion since they would not pay out on the policies in the event of invasion, the idea here being that the invading power would grant immunity from liability on these policies. While an invading power may wish to grant such immunity, its ability to do so would be limited by several factors. Firstly, insurance contracts will only be attractive to clients for as long as they are perceived as being credible by the purchaser of the insurance; an insurance company which wishes to attract custom will have to demonstrate some reason why it would pay out on the massive series of claims we are considering. A multi-national insurance company may have such credibility since it would wish to avoid losing all the custom it has in other countries,<sup>4</sup> in addition to which a multi-national insurance company could be sued in a variety of countries (not just the invaded and invader) for breach of contract. A country whose courts rigidly enforced such contracts (as most capitalist states do) would provide its insurance companies with credibility which would give them a huge competitive advantage over those under no such legal control.

The theory demonstrates one way in which spontaneous interaction could generate non-coercive funding for defence. Many would ask why we need bother construct such a theory, and would suggest that it would be easier, or safer, or more equitable to allow defence to be provided by a minimal state. It is never easier for the state to perform a function which can be performed by the market since the market produces less waste through its superior utilisation of knowledge, it is dubious whether the state could provide a more equitable funding mechanism for defence although it should be acknowledge that this theory lays no claims in particular to having attained equity,<sup>5</sup> and it is certainly not safer to permit the continuation of a state than to embrace a free market society; it is to the dangers to our security created by the state that we now turn.

## ANARCHISM OR DEATH

Aside from powerful public choice objections that the state cannot be effectively limited, there exists good reason to suggest that free market defence is not only possible, but represents the only credible form of defence in the modern age. The continued existence of a state upon which a non-free market defence depends is conducive to the development of a new type of threat which could inflict death on a mass scale. The threat to which we refer is mass destruction from terrorist activity. Terrorist action is almost always driven by some form of desire for control of, or influence over, the instruments of coercion.<sup>6</sup> With nuclear proliferation threatening to put weapons of mass destruction in the hands of terrorists the very continuation of civilisation is endangered. To prevent such an attack is near impossible and would require complete control of human interaction by a police state. The only way of avoiding the fight over the state is to dispose of that which is being fought over. Democracy tried to avoid violence (and to a certain extent succeeded) by providing a dispute resolution mechanism which provided for political conflict which did not necessitate war; the removal of the state altogether would prevent terrorists from having anything to fight over.<sup>7</sup> When we view the problem of international terrorism controlled by fanatics prepared, and equipped, to use weapons of mass destruction we realise that our choice may soon be between the destruction of civilisation through nuclear holocaust, the destruction of civilisation through a totalitarian police state, or the adoption of a spontaneous free market society devoid of the coercive instruments over which terrorists fight. The 'Nozickian' minimal state is no option at all. The choice is: anarchism or death.

## NOTES

1. One possibility would be for the investor to place a bet with a bookmaker that the free market society would be invaded, so that in the event of invasion some compensation will cushion the loss to the fall in the value of the investment (factory, house etc.).
2. The theory we are advancing is not altered by the nature of the institution providing the insurance. If institutions other than insurance companies provide the insurance then the theory will remain the same except each mention of insurance companies should be replaced with the name of the relevant type of institution.
3. New entrants to the insurance market would not be able to offer insurance against invasion without contributing to the defence fund since those who were providing the funding for the defence would have a valid claim in the courts that the new entrant providing the insurance was taking advantage of a pre-existing scheme to which they were not contributing. One can assume this would be acknowledged as unjust and would not be allowed. They would however be allowed to provide all insurance except for invasion insurance.
4. Customers who were uncertain of the sincerity of some insurance companies to pay out, due to the disproportionately large share of the insurance companies' overall liabilities tied up in invasion insurance, may wish to place their custom with an insurance company which has a smaller percentage of its liabilities tied up in invasion insurance, and thus who may be more likely to payout willingly on these policies.
5. It would be a valid objection to the theory of free market defence advanced in this paper that it does not prevent 'free riding' from agents who benefit from, but fail to contribute to, the costs of defence. The same charge can be made against many kinds of activity in a free market society. To avoid all 'free riding' we would need to construct a coercive mechanism which calculates the benefit each obtains from any good and charge them in accord with it, such a task is impossible and its attempt would strangle civilisation. It is also not at all clear that state provision of goods comes any closer to avoiding 'free riding' than market provision does. Indeed many state services seem directed to providing for certain individual/groups that which they could not/would not be prepared to pay the market price by taxing other individuals to pay for it. The failure of this theory to defeat the free rider problem is acknowledged but is accorded little importance.
6. There are a few examples of terrorist action directed at individuals rather than the state, such as the burning of houses in Wales which are owned by non-locals; these examples are few and far between and while serious do not, and are unlikely ever to, possess the feature of mass destruction which terrorist activity directed at influencing the state may do. Terrorism aimed at influencing consumer or other market actions must be well directed, and thus can not engage in mass destruction as terrorism aimed at influencing public policy can.
7. Such groups would be free to form their own societies, but coercive imposition of their demands on others would not be accepted and could not be enforced in quite the same way, as they can when they can gain influence over a state by terror strategies of indiscriminate attacks designed to influence public policy.