

# PRIVATE POLICE AND THE FREE RIDER PROBLEM

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Though libertarians agree on virtually all political issues — not necessarily for the same reasons — they differ as to the proper role of the state. Among hard-line (i.e. consistent) libertarians, the issue is whether a minimal state financed by voluntary means is necessary, permissible, or desirable. When debating the possibility of private police, those of us who are anarcho-capitalists are commonly confronted with certain objections. There is the “But will it be libertarian?” objection, the “Won’t it be like the Mafia?” objection, the “Won’t the companies be always fighting each other” objection. These have been disposed of by, among others, David Friedman in *The Machinery of Freedom*. This article answers the other common objections, particularly common from non-libertarians who are familiar with economics. Before studying the details of the idea it is necessary to examine the underlying concepts.

The notion of a ‘free rider’ is linked to those of ‘collective goods’ and ‘external benefits’. Collective goods (or ‘public goods’) are those that can supposedly only be supplied by government through the use of coercive finance. The characteristics of such goods are said to be that they are non-rival, that is, they can be used by an increasing number of people without diminishing the amount available to others; they are available to everyone in the relevant area whether or not they pay, i.e. nonpayers *cannot* be excluded. Police protection is invariably said to be a collective good. As will become obvious this assertion rests on a confusion between ‘security’ as an abstract ideal, and the provision of actual, specific police services. Murray Rothbard has presented a powerful attack on the very idea of a collective good in *Man, Economy and State*,<sup>1</sup> and has pointed out a number of unanalysed assumptions implicit in the assertion that

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collective goods *must* be supplied by the government out of tax-theft revenue. There is not room to pursue this line of thought here; Rothbard's analysis is recommended.

## EXTERNALITIES

The collective goods argument depends on the 'external effects' or 'externalities' of an economic activity. An externality is a cost (or benefit) born by someone not directly involved in the activity, e.g. a sufferer from pollution produced by a factory. A collective good is characterised by a total external effect. The good or service cannot be supplied to selected individuals or groups; it is not possible to prevent non-payers from consumption. It is often argued that this means, in the absence of forcible financing through taxation-theft, that the good will not be provided at all, or at a low level. A 'free rider' is a person who makes use of a good or service without paying for it. (This is not a rights violation since that person has been provided with the good without contracting for it.) Libertarians understand that external costs usually result from the government's failure to enforce private property rights. But police provide external *benefits*, it is said, so even in a truly free market the free rider effect will mean that few police services will be purchased.

This line of argument usually breaks down into three specific arguments against the feasibility of private police. First, the free rider effect would mean there would be no more police patrols. These are important in deterring crime and hence would be a big loss. Second, the existence of many free riders will result in a low level of police protection with a resulting boom in crime of all kinds. The free rider problem would be even worse because many poor people could not afford police services. Third, competing private companies would not protect non-subscribers nor subscribers to other companies, so criminals would have an easy time. The argument here is that police companies would not give free rides, but that these are necessary for a system of *competing* suppliers of protection.

Before replying to these points it will be helpful to describe briefly the possible basic workings of a private police system. Private police companies might develop out of existing security firms and private investigators and some might be linked to insurance companies (which also have an interest in reducing crime). John Hospers, in *Libertarianism*, has argued that:

Insurance companies would sell policies covering the individual against loss resulting from aggression. To reduce the risks, they would probably insist that the customer install (or would themselves install) protection devices, such as burglar alarms connected to the defence com-

pany's office. Indeed, there would be much more in the way of *protection against* aggression (such as safety devices of various sorts, for it would be to the interest of the insurance company not to let the aggressive acts occur.<sup>2</sup>

Instead of homogeneous provision as at present, there would be much more specialisation on a free market.

On the one extreme, they might limit themselves to passive defences, installing elaborate locks and alarms. Or they might take no preventive action at all, but make great efforts to hunt down criminals guilty of crimes against their clients. They might maintain foot patrols or squad cars, like our present government police, or they might rely on electronic substitutes. In any case they would be selling a service to their customers and would have a strong incentive to provide as high a quality of service as possible, at the lowest possible cost.

So writes David Friedman in *The Machinery of Freedom*.<sup>3</sup> Jarret Wollstein, in "Society Without Coercion",<sup>4</sup> suggests that there would be specialist justice agencies which would include bureaus of patents and copyrights, contract enforcement and fraud prevention. He suggests police could be financed through service contracts (similar to insurance), through specific investigation fees, through special contracts, and through fines.

## GREATER EFFICIENCY

With this very sketchy background let's look at the three attacks on the feasibility of private police protection. It is said that free riders would result in the loss of patrols which are an effective deterrent. To start with it must be questioned how important patrols are at present. In residential areas at least there is virtually no police presence. Indeed it would very probably be pointless (though only the market can decide this) since violent crime generally does not occur in residential streets, and police cannot detect burglars who are inside a house. So there are very few patrols that *could* be lost in these areas and the ones that do exist are unlikely to be an effective deterrent.

There would be other, more effective deterrents anyway. The undoubtedly greater efficiency of private police would make many would-be criminals decide against illegal activities. Not only would capture be more likely but extraction of compensation would be certain. Instead of getting off with a short prison sentence (or even a 'suspended sentence' which is not uncommon) they would have to compensate their victims, perhaps by hard work in a workhouse. In addition, since in a libertarian society there is no ban on ownership of weapons the weaker, more vulnerable people could protect themselves, whereas at present they are helpless. It has been said with much truth

that a gun is a great equaliser. Other people near the scene of, say, a mugging are more likely to come to the victim's aid if they are armed.

It may well be though, that there would be patrols, at least in some areas. This is particularly likely where a small number of police companies have large market shares in a particular area. Then, if patrols were found to be comparatively effective (relative to cost) the companies would provide them in order to attract business. The fact that non-subscribers to their firm would also benefit is not relevant — as in so many economic activities. Many of these comments apply not just to residential areas but to business, shopping, and recreational areas also. But some additional comments can be made in regard to the latter.

In business districts, that is, areas of offices and factories, probably most crime is fraud and pilfering for which patrols are useless. There is really no police presence in these areas now and all security services are already supplied privately. Particularly at night there are likely to be security guards patrolling buildings and their grounds. Other guards oversee the transport of money or valuable goods.

In shopping precincts there are sometimes merchants' associations which provide certain services for the public patronising the shops in the area. In some cases a separate organisation that owns the precinct where the shops are located provides the services (such as cleaning up the rubbish). In a similar fashion it might be that police protection will also be provided for customers for the obvious reason that they will be more likely to shop in an area free from muggers and pickpockets. Here the free rider effect means all shoppers benefit but this does not prevent provision of the service since this is a consequence of profit-seeking behaviour. In other shopping areas there may or may not be patrols, depending on the market share of the local companies. The comments in relation to residential areas also apply here. Again it should be remembered that at present there is little police protection anyway, and what there is exhibits the usual inefficiency of state-monopoly-provided services. Many recreational areas are likely, where necessary, to be far better provided for than is now the case, to attract paying users of the facilities. There *are* free riders in some situations (though they may be paying for protection through the prices charged in those areas), but this does not prevent an efficiently working system, thanks to the market mechanism.

### VICTIMLESS CRIMES

The second argument was that the free rider effect would result in a low level of police service provision, and that this would be worsened by the many people who could not afford to subscribe to a private police agency. Consideration of the previous argument

should be sufficient to repudiate this claim, but more can be said. There is a point that should be especially brought to the attention of non-libertarians. They may be uncritically applying a perception formed from the present statist system to the situation with anarcho-capitalism. Most of the laws currently in force do indeed present serious free rider problems in enforcement. All those non-libertarian laws that punish 'victimless crimes', e.g. prostitution, sale of pornography, violent or erotic films, unconventional sex, and the whole range of controls on economic activities, do not protect those paying for the 'service' through taxation-theft. If people had to bear directly the costs of enforcement instead of indirectly through taxation-theft, victimless crimes would be crimes no longer. Those who directly benefit from and participate in these activities will outbid those who do not suffer but merely disapprove of the activities. The fact that they receive no real benefit from prohibition of victimless crimes is likely greatly to increase resentment at free riders. You're not likely to be willing to provide external benefits when there's nothing tangible in it for you. But the fact that others may benefit, because you are paying for the protection of your life, liberty and property won't stop you. Thus the free rider problem is only a problem for non-libertarian laws in an anarcho-capitalist society. This, of course, is one of David Friedman's arguments as to why anarcho-capitalism would be libertarian. His analysis is more extensive and should be studied by critics.

### WHAT ABOUT THE POOR?

But whether or not the system would fall afoul of free riders, many will quite properly be concerned about the poor. Wouldn't they be defenceless, unable to afford private protection? At least four points can be made in reply. First, the poor do now generally pay taxes, e.g. VAT and excise duties, which they would not be paying under anarcho-capitalism. Thus they could afford to subscribe to a police company. Also the poor and particularly those who are in a racial minority would not receive the incredibly shoddy, brutal, racist, disgusting treatment and 'service' presently accorded them by state police — not when there are companies vigorously competing for their custom on a free market. Second, the protection of the poor could be financed by charity, but I don't think this is necessary. The companies might even be willing to do this themselves to gain goodwill and publicity. The cost would be partly born by the criminals who would have to pay compensation.

Third, the poor would be protected in some situations as has been described; they would be free riders in shopping precincts and recreational areas. Fourth, they need not pay for all the services available (as they do through taxation). They would only buy protection

but not the specialist contract enforcement and adjudication used by businesses.

Finally, to put all this in perspective, let's get some idea of how much private police services might cost. State police are provided by local authorities. Local authorities spend around £25bn a year. 6% of this goes on police services, i.e. £1.5bn a year, which is about £26.80 per person per year, or 52p a week. Even taking this figure as the cost of a policy with a private police firm it is obvious that we needn't be worried about the poor. But there are four considerations which suggest that this price is higher than would be the case in a private system. (1) As already stated, individuals do not need to pay for the whole range of possible security services. (2) Private services are, on the whole, twice as cost-effective as state services (this generalisation is surprisingly consistent in practice). (3) The criminals who must earn money in a workhouse (or factory under supervision) instead of languishing in prison would bear some of the costs. (4) Most presently existing laws would not exist in a libertarian society, so police would not waste time, money and effort on them as they do now.

## NON-SUBSCRIBERS

The third objection presented against private police was that a disastrous situation would arise where no company would go to the assistance of a non-subscriber or a subscriber to a competitor. Thus the objector envisages a private policeman standing idly by while a nonsubscriber to his company's services is mugged. Is this what is really likely to happen? Wollstein<sup>5</sup> considers the case of a family returning home to find their house has been burgled. The police company they ring to report this to will first check to see if they are subscribers to its services. If so all is well (and how likely is it that the family would not be protected — especially if they had insured the contents, then the insurance company would probably require such a policy with a police company). If they had no subscription, a salesman would probably be sent with an investigator. The family could then either take out a policy (obviously at a higher rate now that the crime has taken place) or pay a specific investigation fee. If it's an emergency situation (say the house is in the process of being burgled) then a phone call to the company would constitute a binding contract and the company would be able to claim damages should payment not be readily forthcoming. Not to respond to such an emergency call would be bad for business (directly and due to publicity).

What about crimes discovered by police during the fact, as in the case of our person being mugged? Obviously there is not time to ascertain whether the victim is a subscriber or not. If the victim was signed up for protection, not coming to his aid would be very bad for business. The victim would do his best to see

that all his friends and relatives subscribed to other companies. Also, what would the newspapers make of such inaction by the policeman? It is then, reasonable to expect policemen to go to a victim's aid. Wollstein adds the suggestion that an active policeman would have a better record and therefore a higher salary and superior chances of promotion.

Though these considerations are reassuring we need not stop here. If the person being attacked yelled "Help! Police!" or similar, then he has made a verbal contract for police assistance, just as one makes a verbal contract in a restaurant. One makes no mention of payment when asking for the service but a contract has nonetheless been formed. If the victim is unable to cry for help the police are still likely to help for reasons already given. In addition:

... the police force would also send this person a bill which he would be *requested* but not *obligated* to pay. Since the police have just saved his life, there is a good chance that he would pay. Or, if the police were smart, they would send out a salesman and attempt to sign him up. Since he had just benefitted from their services, it would seem quite likely that he would at least take the 'special budget protection package'.<sup>6</sup>

If the victim is a subscriber to a company other than the one that comes to his aid (and this is surely more likely than the possibility that he has *no* policy), that company can take over proceedings after the initial action. Thus costs to the acting company would be low, especially since the police were on duty anyway. Even helping a victim with no police policy need not be expensive since the criminal would have to pay the company some compensation.

In some cases then, victims or potential victims of crime will be free riders, but only infrequently, and this would not stop a system of competing private protection companies from operating efficiently. Other arguments against anarcho-capitalism have been dealt with adequately by others. The defeat of the 'free rider problem' removes the remaining intellectual obstacles to the justification of free market anarchism.

## NOTES

1. Murray N. Rothbard, *Man, Economy and State*, Nash Publishing, Los Angeles, 1970.
2. John Hospers, *Libertarianism: A Political Philosophy For Tomorrow*, Nash Publishing, Los Angeles, 1971, pp. 435-436.
3. David Friedman, *The Machinery of Freedom*, Arlington House, New Rochelle, 1978, p. 156.
4. Jarret B. Wollstein, "Society Without Coercion", in M. and L. Tannehill and J. Wollstein, *Society Without Government*, Arno Press, N.Y., 1972.
5. Wollstein, *ibid.*, p. 28.
6. Wollstein, *ibid.*, p. 29.