

# Economics of Conflict, War, and Peace

Prof. Dr. Jurgen Brauer; Summer 2009  
Chulalongkorn University; Bangkok, Thailand

**Session 3.2**  
**Manpower: private military companies**

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## Manpower: private military companies

- PMC/PSCs
  - Rule of thumb: combat vs noncombat/support operations
- Examples
  - *Condottieri* (contractors) in the Italian renaissance (ca. AD1300-1500)
  - Executive Outcomes – Sierra Leone
  - Sandline – Papua New Guinea
  - U.S. use of “mercenaries” in Kosovo 1999 and in Afghanistan/Iraq in the 2000s
- In the U.S.: private security sector is larger than the public one
  - Shopping malls; college campuses; big sport events; car and house alarms; corporate security measures
  - Arms mfg mostly done with private firms
  - All-volunteer forces are “privates”

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## Manpower: private military companies

- Two questions:
  - 1. What kind of good is security anyway?
    - Cp. Brück: security as risk; C & R Anderton: security as defense from appropriation
  - 2. What is the best feasible governance structure by which to supply the security good?
  - Perhaps different types of security goods are best provided by different governance structures

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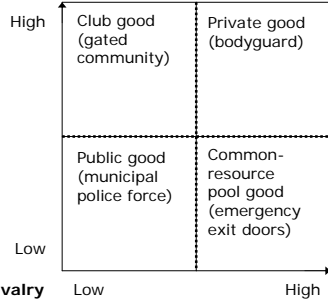
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## Manpower: private military companies

Exclusion



A "walk in goods space" (domestic case)

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## Manpower: private military companies

### ■ A good's character vs its financing

- Private good
  - "public" – bodyguard for prime minister
  - "private" – bodyguard for corporate CEO
- Club good
  - "public" – gated military compound
  - "private" – gated community/neighborhood
- Common-resource pool good
  - "public" – emergency doors at federal buildings
  - "private" – emergency doors at shopping mall
- Public good
  - "public" – municipal police force
  - "private" – campus/sporting event police force

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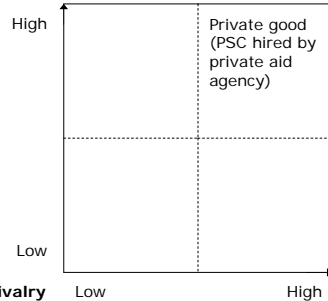
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## Manpower: private military companies

Exclusion



A "walk in goods space" (transnational case)

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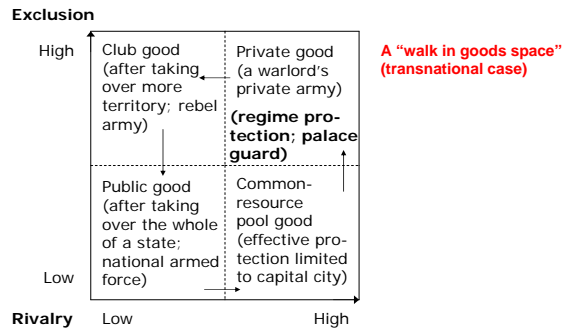
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## Manpower: private military companies




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## Manpower: private military companies

- 1. What kind of good is security anyway? (what kind of bad is insecurity anyway?)
  - 1. different forms of security may be defined by different combinations of degrees of rivalry and exclusion
  - 2. the boundaries among private, club, public, and common-resource pool goods are fluid
  - 3. "private" refers not only to PMCs but also to drug gangs, rebel armies, warlords, and PSCs employed by aid agencies and mining companies
  - 4. the main issue is not **how** force is organized (i.e., "public" or "private") ...
  - ... but how it is **organized** (i.e., regulated)

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## Manpower: private military companies

- 2. What is the best feasible governance structure by which to supply the security good?
  - Economic legitimization based on an efficiency criterion
  - In-house vs contracting-out
    - "make-or-buy decision" (business; households; security services)
  - Two aspects of efficiency
    - Technical efficiency
    - Agency efficiency
    - i.e., consider transaction cost in addition to production cost

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## Manpower: private military companies

- Williamson's transaction cost theory of sovereign transactions (1)
  - Williamson asks a "stupid" question:
    - "... although almost no one recommends that [a state's] foreign affairs transaction be privatized, what is it about foreign affairs that makes this an 'obvious' candidate for governance by a public bureaucracy? Why is privatization comparatively unsuited?"
  - Change a few words to "security," and then same question applies
  - Williamson agrees that this is 'obvious' – but why? When one disentangles that, one comes to agency risks ("loyalty", "rectitude", "probity")

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## Manpower: private military companies

- Williamson's transaction cost theory of sovereign transactions (2)
  - The higher the risk of mis/abuse and failure of contract fulfillment by the agent, the more likely that the activity will remain internal to the principal (the hiring organization)
  - Williamson concludes: "... as compared with alternative feasible forms (all of which are flawed), the public bureaucracy is the most efficient mode of organizing sovereign transactions"

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## Manpower: private military companies

- Williamson's transaction cost theory of sovereign transactions (3)
  - The key criterion is "remediable-ness" ...
  - ... is it possible to remedy the apparent inefficiency of the public bureau by moving the transaction to a private bureau?
  - If not, then "recourse to public bureaucracy ... is properly regarded as an efficient result"

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## Manpower: private military companies

- The use of PMCs as a sovereign transaction (1)
  - Instead of “Diplomacy, Inc.” read “Armed Services, Inc.” and it is clear that the use of PMCs is subject to a number of contractual and probity hazards (see E. Fredland)
  - But if hazards of contracting-out are high, what accounts for the re-emergence of PMCs since the early-1990s (the end of Cold War)?
    - “privatization movement” (Thatcher govt; Reagan-era)
    - dealing with peak-load demand (electricity industry; med/hospital industry)
    - armed forces – active-duty; reserves; private contractors (very high skilled; very low skilled)

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## Manpower: private military companies

- The use of PMCs as a sovereign transaction (2)
  - period of experimentation of finding suitable governance models acceptable to the electorate (issues of risk, transparency, accountability)
  - But in some states, the risk may run the opposite way (Thailand 2006; Turkey 2007): the probity risk is not with respect to contracting-out but with keeping the army’s “loyalty and rectitude”
    - A PMC/PSC may be more loyal than an official army
  - In terms of goods space, just where are the armed forces located?

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## Manpower: private military companies

- Conclusion
  - Thinking about goods space (the changing nature and diversity of the security good) and contract hazard (agency efficiency) provides nuance to the ongoing discussion of public vs private force
  - These ideas may prove valuable to disentangle when and how best to use private contractors to complement or substitute for public or suprapublic force, depending on the precise intended purpose of the security good at hand

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