

The Military System of Democracies VI: Rational Threats and Countermeasures

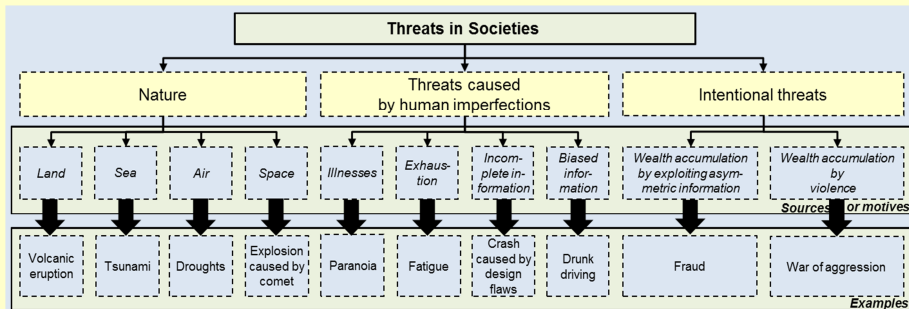
He raged at Metternich: 'You know nothing of what goes on in a soldier's mind. I grew up on the field of battle. A man like me cares little for the lives of a million men.' Metternich replied caustically that he wished the windows and doors of the palace could be thrown open so that all Europe could hear what had just been said. He taunted Napoleon with sacrificing French lives to his own ambition and mentioned the Russian campaign. The Emperor replied that he had lost 'only' 300,000 in Russia and that 'less than a tenth' were French; he had spared the French by sacrificing Poles and Germans. At this even the icy Metternich lost his composure. 'You forget, sire, that you are addressing a German.'

The meeting quickly descended into a slanging match. 'I may lose my throne,' Napoleon exclaimed, 'but I shall bury the whole world in its ruins.'

Frank McLynn (1998, p. 558)

Threats

Threats in societies:
General overview



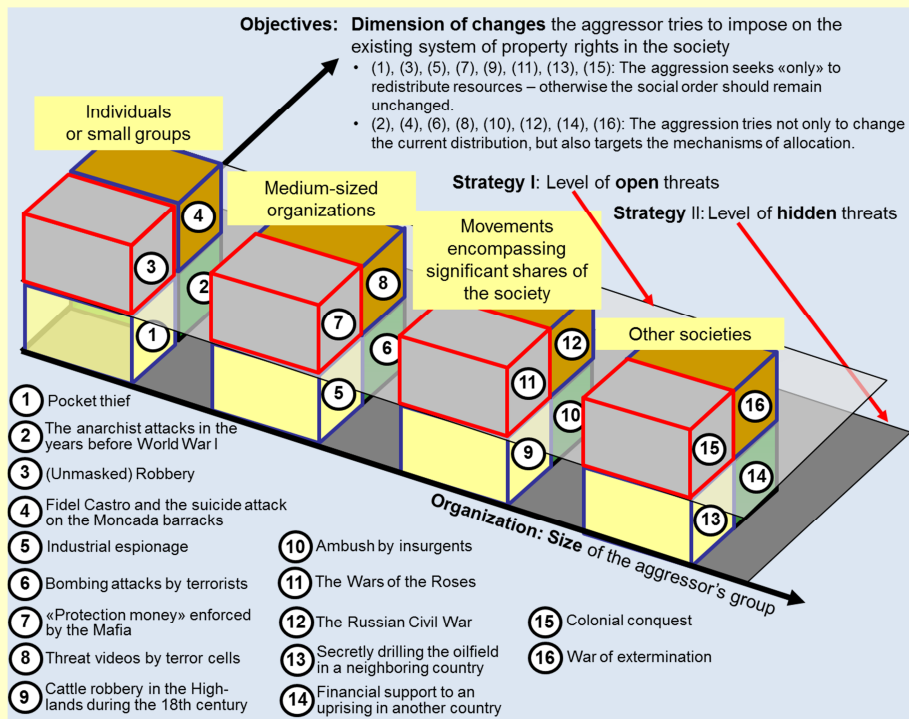
Threats have their origin in forces that can reduce the welfare positions of the potential victims ("the threatened"). In contrast to, for example, stock losses reflecting an unexpected downturn of the economy, threats represent incidents that democracies seek to **avoid** by their **social contract**. **Three major sources** of threats exist: a) **Natural hazards** like earthquakes. Basically, their occurrence can be predicted by "exact" laws of science as no behavioral uncertainty is involved. This also makes "perfected methods" feasible to reduce their impact. b) The **fundamental restriction** and its implications create threats, too. E.g., players might possess a flawed understanding of how **other players** or **physical forces** influence the outcome ("incomplete information"). Or they misjudge their **own capabilities** to influence an outcome ("biased information"). c) Finally, **rational players** may employ **violence** or exploit **asymmetric information** to improve their wellbeing.

The focus on
rational threats
by violence

(1) **Security sciences** must analyze **all three sources** of threats. However, modern economics highlight the importance of information a-symmetries to coordination issues – refer to section [XXX]. It also discusses – since JOHN M. KEYNES identified psychological motives as determinants of economic performance and HERBERT A. SIMON introduced the concept of "bounded rationality" – the impact of the fundamental restriction on economies.

(2) **Environmental hazards** represent research topics in environmental economics or insurance economics. This leaves the economics of defense – if it wants to fulfill its ambition of being recognized as an established subdiscipline (refer to section [XXX]) – with the task to focus on cases of **rational violence**. However, NAPOLEON's statements – even when discounted by LEOPOLD VON RANKE's epoch relativity – illustrate how rational threats can be traced back to human imperfections.

Rational threats
of violence:
Systematization

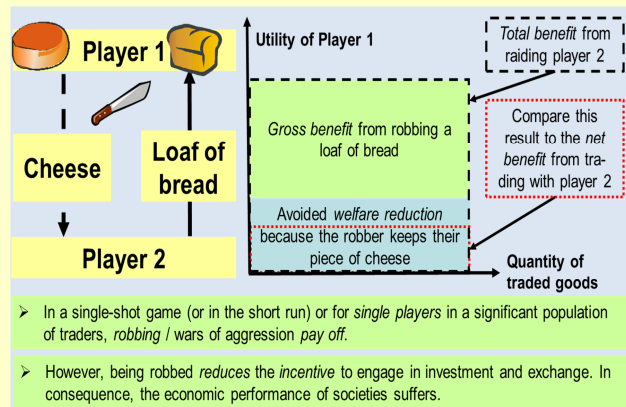
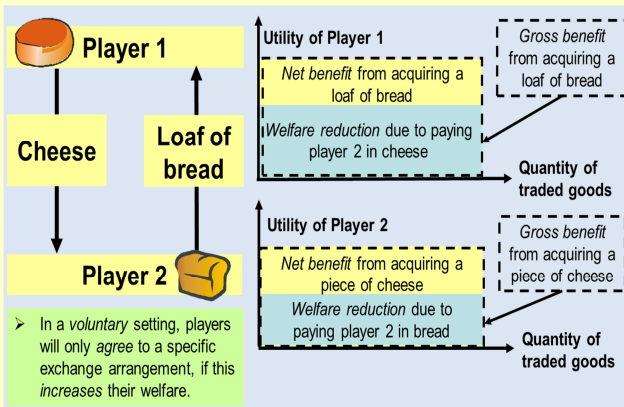


(1) Each system features the **general relationship** between objectives, strategy, organization and the fundamental restriction and its implications – refer again to section [XXX]. Consequently, this relationship can now be used as a blueprint to derive the most basic **systematization** of rational threats – depicted on the left. In contrast to the general relationship, this systematization features **only three dimensions** because the fundamental restriction and its implications remain unaffected by this specification. Thus, the latter can be omitted. This leaves three dimensions.

(2) a) The **objectives** behind rational threats differ in their impact on social order: Either the aggressors seek a "mere" redistribution of property rights or they try to overthrow the current social contract. However, later it will become clear that this differentiation has only a limited value in most realistic constellations – a redistribution of wealth very often changes the incentives to contribute to the performance of societies. b) The **strategy** of the aggressors to realize the threat's outcome may either be visible ex ante to their victims – facilitating the identification of the perpetrators and the initiation of countermeasures – or the threatened may only realize that they have become victims ex post. c) The simplest way to differentiate between the various **organizations** employed by the aggressors is to focus on their group size. The corresponding spectrum starts with individuals or small groups and ends with threats caused by other societies. The **combination** of the three dimensions results in $2 \times 2 \times 4 = 16$ entries. The graphical representation offers an example for each entry. Refer, for example to entry 11 – "The Wars of the Roses". Many historians like MICHAEL HICKS conclude that the Wars of the Roses in Medieval England represent civil wars struggling to establish a **clear separation line** between the warring factions and (after the conflict's end) between legitimized victors and besmirched defeated, but otherwise little else changed: "A new dynasty entailed a new king, a change in the personnel of government, and an initial struggle for internal and international recognition, but little more. The principles for which the wars were supposedly fought made little practical difference once victory had been attained, with politics, government, the economy and society remaining essentially unchanged."

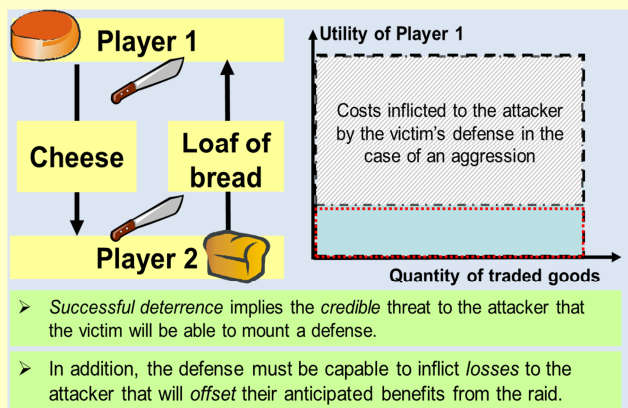
Strategies I:
Why do
rational threats
of violence
exist?

(1) Not surprisingly, the countermeasures of societies against rational threats should be rationally designed, too. Thus, the general relationship derived in section XXX applies to this context: As stated in section XXX, the **objective** of all security-related activities in a society is to establish **threat-optimized environments**. Because **strategies** to counter rational threats represent reactions to the activities of the aggressor, the analysis of the latter's objectives and strategies are a good starting point to obtain security for the threatened – or, as BASIL LIDDELL HART puts it: "If you want peace, understand war." Thus, the first question to be answered is the following: Why do we still regularly observe in the 21st century the phenomenon of rational aggressions by individual or groups even when most participants of previous wars **agree** on how brutal, disruptive and nightmarish their experience was – e.g., ERICH M. REMARQUE's "All Quiet at the Western Front"?

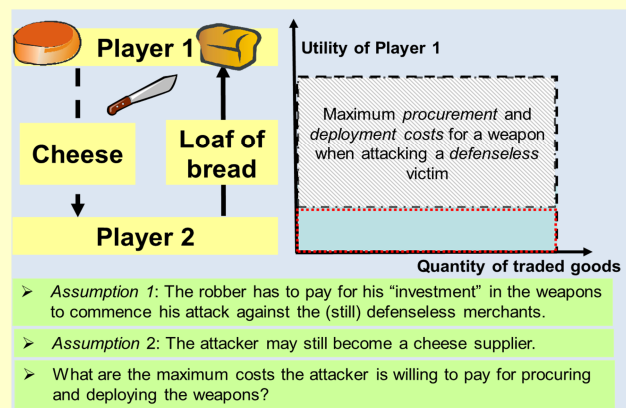


(2) Economics is able to provide a simple explanation: In **peaceful** transactions – refer to the graphic on the left – the respective partner has to be **compensated**. In contrast, **raiding** the victims' resources can be done without compensating for their losses.

Strategies II:
Three ways to
stop rational
aggressors cold
in their tracks



(1) While the economic perspective on rational aggressions focusses on the "net **benefits**" of employing **violence**, religious, cultural or ethnic motives are **discounted**. Such motives mainly serve as **pretexts** or as ways to facilitate the **distinction** between **friends** and **foes**. Because of the rationality behind the threats, the following insight of economics – part of the canon in economics since ARTHUR C. PIGOU has shown how taxes can be used to internalize **externalities** – can be used as a guideline for the design of countermeasures: "A change in a player's behavior is induced by changing the costs or benefits of the corresponding action." This implies potential aggressors will **refrain** from attacks in three **basic constellations**: a) The "**booty**" is automatically **destroyed** after the attack.



(2) E.g., flooding a briefcase with paint renders money bundles useless when the case is illegally opened. b) The defender is able to **deter** the aggression because its **costs exceed** the benefits due to the losses the attackers will suffer in the wake of their aggression. c) The acquisition of weapons becomes **prohibitive expensive** to offenders – e.g., by gun licenses or trade embargos.

Strategies to Counter Rational Aggressions – the Economic Perspective

The Military System of Democracies VII: Organizing Security 1

Because there is nothing proportionate between the armed and the unarmed; and it is not reasonable that he who is armed should yield obedience willingly to him who is unarmed, or that the unarmed man should be secure among armed servants.

Niccolò Machiavelli (1532 / 1908), www.constitution.org

Internal Security, Homeland Security and National Security

The organization of countermeasures against rational threats: An outline

Core of internal security		Group objectives in regard to social order	
Core of homeland security		Focusing on distributional effects and preserving the status quo	Overthrowing the current social contract
Core of national security			
Group size	Individuals or small groups	Misdemeanors and capital offenses	Violent-prone conspiracy theorists
	Medium-sized groups	Gang delinquency	Terror cells
	Movements encompassing significant shares of the society	Cartels or Mafia organizations	Insurgency
	The own regime as the aggressor, other societies	Kleptocracy	Aggressor state

Real societies choose to organize their countermeasures against rational threats of violence mainly in three “divisions”: **internal security**, **homeland security** and **national security**. The next sections sketch economic explanations for this arrangement. Principally, this differentiation becomes necessary because – in accordance with the general relationship “objectives, strategies, organizations and fundamental restriction” – the society faces three different core areas of rational threats it must counter by an efficient organization of its security. For example, **group size** – as foreshadowed in section [XXX] – determines the capital endowment of aggressors, their technological options to employ violence and their force size – and hence the **probability** and **visibility** of specific **strategies**. To elaborate the underlying interdependencies, the analysis focusses on criminal activities in section [XXX]. Section [XXX] investigates attempts to overthrow the social contract. The corresponding implications for the organization of security are discussed in section [XXX].

Organizing security I: Criminal threats

(1) **Criminal activities** nearly always aim for the mere redistribution of property rights. Consequently, the corresponding perpetrators see the population as potential victims and the police or the legal system as their primary foes. They focus on activities where they can remain invisible or their involvement cannot be proven by investigation: “In dubio pro reo”.

(2) Only when the sheer size of activities reaches the dimension of **organized crime**, the **visibility** of their activities forces criminals to corrupt the legal system and the police forces on a broad and regular basis. In addition, they then seek to obtain the “neutrality” (the notorious “omertà” of the mafia) or even the “support” of the population by intimidation or by highlighting their own “welfare” activities – contrasting the latter with actual or trumped-up stories about governmental failures.

(3) In short, the strategy and organization of cartels then feature a significant resemblance to insurgency movements. This resemblance represents a driving factor for the involvement of the military when the state is fighting cartels or Mafia organizations in a “last ditch defense”. In particular, the military is able to establish **spatial coverage** by checkpoints or by other **surveillance instruments** like drones. It also can provide “**emergency reserves**” to police forces or is **less likely** to be “infiltrated” by crime organizations because the latter have to focus their scarce resources for corruption / infiltration attempts on more likely adversaries – refer to the current success story of the decision by the former Mexican president F. ELIPE CALDERON to employ navy special forces in the fight against the drug cartels. Finally, the military may provide a counterforce to the government when the latter attempts to misuse its powers for **rent seeking** activities – refer to section [XXX]. However, this advantage often comes with a heavy price because the military – like any player – has its own incentives to engage in rent seeking activities. Thus, when radical Islamic movements gain power in countries like Turkey or Egypt the population seem to face the choice between a rock and a hard place. The only consolidation in such constellations lies in the fact that regime changes often result in exchanging the groups benefitting from rent seeking activities – implying a small, unsustainable shift towards the constitutional principle of equal rights.

Organizing security II: Attempts to overthrow the social contract

(1) **Politically motivated attempts** to overthrow the social order face several challenges: First, they have to overcome the **first watershed** separating terror cells from single individuals often tormented by mental problems – the “violent-prone conspiracy theorists” like T. ED KACZYNSKI (the “Unabomber”), FRANZ FUCHS (fantasizing about a “Bavarian Liberation front”) or A. NDERS B. BREIVIK who murdered 77 people based on an imagined Templar plot. Thus, a handful of fanatics (“a brick”) must be convinced to follow a charismatic leader like F. IDEL CASTRO into a series of terror strikes. The **second watershed** separates terror cells from insurgency movements. This transformation can only succeed – as pointed out by M. AO ZEDONG and DAVID J. KILCULLEN – if the insurgents, can call on the support of a significant share of the population. In turn, an appealing ideological **concept** is required – capable to **criticize** actual **weaknesses** of the established regime **and** offering the **promise** of a **superior** social contract. For example, according to A. HEMED RASHID the Taliban – despite their rigorous intolerance to other ways of life – initially gained significant support in war-torn Afghanistan because they were able to offer a higher level of security to the population than corrupt warlords. Otherwise, the terror cell will remain a small group of “die hard” fanatics eventually withering away due to frustration as well as successful counteroperations by the state – refer to the fate of nearly every terror cell in Western democracies or the alienation of the Iraqi population by the terror regime of ABU MUSAB AL-ZARQAWI.

(2) At the same time the humble beginnings of most insurgencies as “terror cells” call for a low profile because of their incapability to face the incumbent regime in a direct (conventional) confrontation. Consequently, the insurgents are forced to **trade in** a fast decision about the future social contract for a prolonged campaign focusing on small-scale operations where they employ **hit-and-run tactics**. These operations often possess no strategic value except that modern equipment becomes available and the tactics as well as the combat skills of insurgents improve. The insurgency faces a **third watershed** when it tries to gain momentum by creating a regional or even national organization capable of coordinated operations. Hereby the support by **foreign powers** often – for example, in countries not “blessed” by a geography favoring hit and run tactics – becomes a critical factor: As **safe harbors** or as **supply sources** of financial resources, equipment and manpower. The current conflicts in Somalia, Georgia, Libya, Mali, Syria and the Crimea prove the **reluctance** of the West to engage in additional interventions after the disappointing experiences in Iraq and Afghanistan. In fact, the Western democracies seem to struggle for convincing approaches that seek to avoid the single-sided guideline of “the enemy of my enemy is my friend” employed in previous conflicts. For example, this untamed realpolitik led to the support of radical mujahedin during the Soviet invasion of Afghanistan who later turned against their former Western allies – backed by extremists in Pakistani security organizations like the Inter-Services Intelligence who played the card of “true religion” to broaden the rift.

(3) The corresponding spectrum features such different approaches like a) limited interventions (the French in Mali), b) air support (Libya), c) training the insurgents by special forces (the green berets as advisors of the Montagnards during the Vietnam war) d) “backseat driving” relying on third powers (the Ethiopian expeditionary forces in Somalia), e) weapon deliveries and, finally, f) supply restricted to non-lethal equipment. However, two core dilemmata still await convincing solutions: An insurgency can **only** be **morally justified** when it fights a regime that denies its population the social contract of democracies and employs violence to defend this status. But how to **commit** insurgents to this objective, in particular, for the **post-war period** – thus, avoiding the establishment of “just another **kleptocracy**”? In addition, Syria provides ample evidence how moderate groups of insurgents enter – simply out of sheer desperation – **alliances** with **extremist groups**. Does this decision represent a moral breach like targeting civilians? As stated in section [XXX], only public debates in a democratic setting are able to provide answers that may be considered an **approximate** consensus. Finally, insurgencies are confronted with the **fourth watershed** during the final stages of their campaign: To restore social order as quickly as possible, the insurgents have to transform to a conventional force with certain units selected to build the core of the new security organization. Other units must be dissolved without offering their veterans the tempting outlook of acting as an alternative security force to the officially designated units. If this transformation starts too early, the insurgents risk getting slaughtered by a still resilient regime. If it starts too late, a long period of instability, even anarchy, might ensue.

Organizing security III: Carving up the security dimension

(1) According to the graphic above, democracies should feature at least **eight divisions** to counter rational threats by violence – because they differ in regard to the motives behind the threats, the strategies employed by the aggressor or the origin of the attack. This organizational arrangement would maximize the benefits of division of labor: For example, internal security forces (Homeland security and regular police forces) require – in comparison to armed forces – only a reduced spectrum of combat skills because criminal organizations or insurgents are not capable to conduct combined arms warfare or deliberately abandon this approach in favor of hit-and-run tactics. In addition, independent security organizations with clear-cut responsibilities avoid a concentration of power that could otherwise be damaging to society’s stability – for an historical example, refer to the reluctance of the Reichswehr command to fight right-wing coups during the Weimarer Republic. Finally, this arrangement improves the possibility to double-check on threats. However, instead of eight “divisions”, **only three “divisions”** – **internal security** (police), **homeland security** fighting terrorism and **national security** – are regularly considered the main exponents of the security dimension on national level. An economic perspective can offer several reasons for this observation – for the general overview of the forces behind organizational design refer again to section [XXX].

(2) a) The previous sections showed how organizations intentionally threatening the social contract may pass through **several stages of development** during their existence. Consequently, it pays off to “accompany” them with security organizations capable to mirror this process. b) In addition, the respective **probabilities** of specific threats feature significant **heterogeneity**. For example, how likely will – in contrast to pickpocketing – a full-fledged coup d’état happen in stable democracies? Consequently, the corresponding organization can be attached or merged with other security units: E.g., because the chance of specific natural disasters proves to be very low, it is sufficient to equip only the military engineer corps with the corresponding heavy duty equipment. c) Due to their limited support in the population, terror cells like the National Socialist Underground or the Red Army Faction had to finance their activities by criminal operations like bank robberies. Thus, security organizations have to cope with such interdependencies between criminal and politically motivated activities.

Organizing security IV: The future partition?

In history, societies struggled with the **optimal “carving up”** of the security dimension – similar to the struggle for the best partition of public sector, the economy, nature and social subsystem. For example, in ancient Rome military units regularly engaged in policing. Concerning the **future partition** of the **security** dimension, **two scenarios** deserve particular attention: The **first scenario** sees a further gain in the importance of internal and homeland security at the expense of national security. In particular, this scenario is driven by **globalization**. The latter makes wars between countries **less likely** as it increases the benefits of exchange and production. It also promotes the **success stories** of social market democracies. However, globalization also increases the pressure on non-democratic societies because the true causes behind their poor economic performance become more blatant. In turn, the probability of insurgencies increases in these countries. Finally, globalization also helps to spread criminal activities by single persons who lack competitive education may breach the social contract because of their age, the absence of education programs or due to the personal effort required to catch up. Criminal organizations are eager to export their “successful business models” to other countries. Most likely, these developments reduce the importance of single units in the **federal organization** of internal security – for example, police units at local level or at the level of single states. In contrast, interregional or multi-national organizations like Europol gain in importance. The **second scenario** predicts a **renaissance** of “conventional and nuclear deterrence” – due to increased rivalries between trading blocks for key resources like water, gas, oil, rare earth metals or arable land. In addition, countries like China may try to expand their geo-strategic influence by military pressure. **NATO** will seek to deepen the following **division of labor arrangement**: The USA concentrates its resources on the Asian challenge and the Europeans focus on conflicts in the Middle East, Africa and Eastern Europe.

The Military System of Democracies VIII: Organizing Security 2

The United States is fortunate to have the next decade in which to make the transition from an obsessive foreign policy to a more balanced and nuanced exercise of power. By this I don't mean that the goal is to learn to use diplomacy rather than force. Diplomacy has its place, but I am saying that when push comes to shove, the United States must learn to choose its enemies carefully, make certain they can be beaten, and then wage an effective war that causes them to capitulate. ... The lesson we should have learned from the British is that there are far more effective, if cynical, ways to manage wars in Asia and Europe. One is by diverting the resources of potential enemies away from the United States and toward a neighbor. Maintaining the balance of power should be as fundamental to American foreign policy as the Bill of Rights is to domestic policy. ... The foundation of American power is the oceans. Domination of the oceans prevents other nations from attacking the United States, permits the United States to intervene when it needs to, and gives the United States control over international trade. The United States need never use that power, but it must deny it to anyone else. Global trade depends on the oceans.

George Friedman (2011, pp. 211)

The Relationship between National Security and Other Instruments of Diplomacy

Focusing on National Security

33

(1) The previous schema has explained why the security dimension of democratic societies – one of the seven **schwerpunkte** of **national strategy** – is characterized by the **division of labor arrangement** featuring internal security, homeland security and national security. The following analysis will focus on national security ("The military system") through the lens of the **economics of defense**.

(2) National security is primarily concerned with rational threats that rely on the (potential) use of violence by other societies to raid resources. Consequently, it can be interpreted as the specific part of security that represents an instrument to shape the **foreign affairs** of countries in cases of **conflicts**.

Examples of conflicts in international affairs

34

Grand strategy: Part of national strategy focusing on the peaceful or violent resolution of **conflicts** in **foreign affairs**.

Haggling over air **traffic regulations** for Zurich Airport between Germany and Switzerland.

"Beggars thy neighbor" policy may lead to trade wars or currency wars.

Disputed **border regions**, espionage.

A neighbor country **refutes** access to a water source previously shared in an arid climate zone.

Denying a country's **right to exist** and **threatening** with a nuclear strike.

Entering a **war of extermination** to obtain the enemy's resources.

Increasing level of pressure, threats and violence

Instruments of grand strategy

35

Diplomacy: Coordinating the instruments of grand strategy. As all diplomatic actions are founded on public or secret **information**, obtaining the latter and checking for reliability is one of the tasks of **intelligence services**.

(2) **Cultural exchange:** Visiting programs may improve the mutual understanding and create an atmosphere of **tolerance**.

(4) **Third party conflict resolution:** Mutual mistrust leads to information asymmetries between the opponents. Then a "**middleman**" can detect additional space for a bargaining solution.

(6) **Economic instruments:** Changing the international exchange opportunities for the opposing society to increase its willingness to cooperate – for example, by **sanctions** or by **trade facilitations**.

(1) **Public moral suasion:** Trying to point out why the position of the opposing party is less convincing.

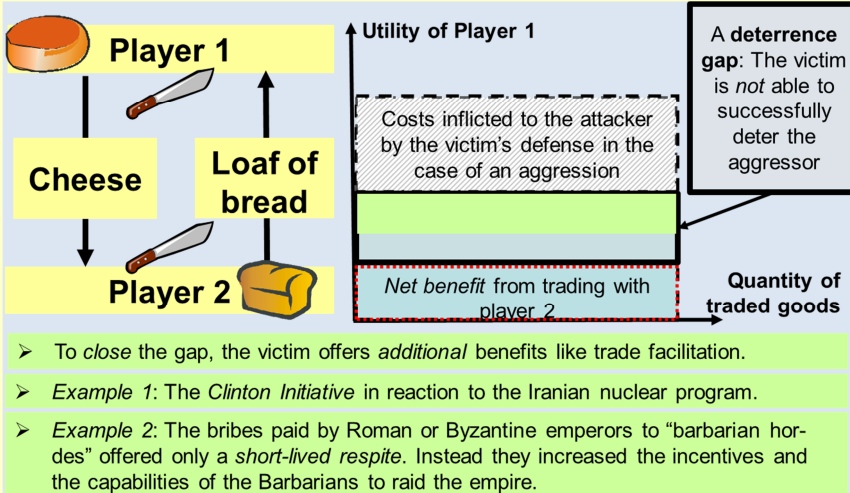
(3) **Permanent platform** for multilateral, but **informal talks** based on a minimum consensus – **example:** Organization for Security and Co-operation in Europe.

(5) **Conflict resolution by institutions** like the **United Nations** may result in a condemnation as a "violation". This implies a loss in reputation and may include other negative consequences like embargos.

(7) **Military:** Successfully **detering** or even **fighting** the attempts of dictatorial regimes seeking to establish oppressive social orders on their own society or on other countries.

The interplay between the military ("ultima ratio regis") and the other diplomatic instruments: A showcase

36

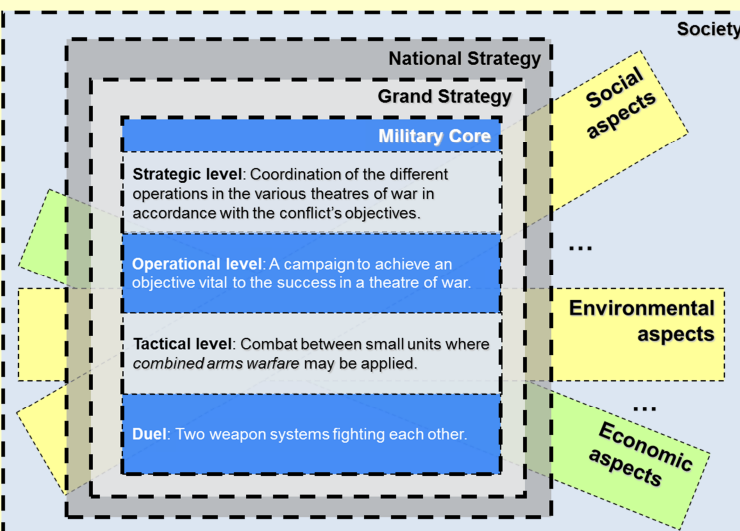


(1) The graphic to the left revisits the simple model investigating the conditions for peaceful trade and robbery to illustrate how the various **tools of diplomacy** can be **combined** to generate a solution when this outcome cannot be achieved if politics focusses on **only** one instrument. This example also provides a general insight. In economics, this insight is known under the label of **opportunity costs** – refer to MILTON FRIEDMAN's famous dictum: "There is no such thing as a free lunch." And section [XXX].

(2) In **strategics**, the same idea can be traced back to BASIL H. LIDDELL HART: "A deeper truth to which Foch and other disciples of Clausewitz did not penetrate fully is that in war every problem, and every principle, is a duality. Like a coin, it has two faces." Thus, in diplomacy a "**mixed strategy**" of carrot and stick may transform a state of tension into a long-lasting peace or it can be exploited by one side to improve its stock of resources for a definite strike against its unsuspecting victim.

(3) The existence of the same theoretical concept in such – at first glance – different disciplines like economics and strategics hints at a significant issue: So far, this investigation has employed the economic perspective to enlighten on the socio-economic environment of the military system. But is economics also a useful **tool** to analyze the military system itself? Furthermore, is there enough evidence to justify the establishment of a corresponding discipline – the **economics of defense**?

The foundations of the economics of defense



(1) The design of national defense rests on several **cornerstones**: PLATO, HOBBS and other philosophers explain why **societies** and the **military** do exist. SUN TZU, the Byzantine emperor MAURICE, LIDDELL HART and others highlight the importance of the **indirect approach** – victory against an enemy **anticipating** one's own strategy can often only be achieved when the odds are extremely favorable. Thus, it pays off to be **unpredictable** in military affairs. Machiavelli teaches the **performance** of the military depends on the society it is **embedded** in. Talcott Parsons identifies the **structure** of societies – they consist of **different** subsystems like politics or the economy. These subsystems evolve because they offer **unique functions** for society's complete system – thus, to emphasize the obvious, the subsystems feature significant differences. Clausewitz characterizes military conflicts as **coordination mechanisms** employing **violent** means and he explores the military's **relationship** to other subsystems.

(2) In particular, he establishes the paradigm: The military serves as an **instrument** for objectives determined by politics. ANTOINE-HENRI JOMINI elaborates the **structure** of the military system ("The **core**") and stresses the impact different political **regimes** possess on military performance. Strategic thinkers like LIDDELL HART and EDWARD N. LUTTWAK add elements like "Grand strategy" to the military core. DARWIN shows that **self-interest** is a primary motive of human activities. The latter are **continuously** exposed to environmental forces causing lasting patterns in activities and gestalt features to evolve. Not surprisingly, these prove to be particularly successful in **stable** conditions.

(3) The existence of **static** elements in the military system – next to dynamic features – motivates the literature to search for "eternal" principles of conflicts and military organization since SUN TZU. In **contrast** to JOMINI's statement – "The new inventions ... seem to threaten a great revolution in army organization, armament, and tactics. Strategy alone will remain unaltered, with its principles the same as under the Scipios and Caesars, Frederick and Napoleon, since they are independent of the nature of the arms and the organization of the troops." – this synopsis shows that **all** subsystems of the military feature static as well as dynamic elements. For example, a cavalry tactic developed in antiquity, the Cantabrian circle, returned as the caracole during the 16th century or as the "abwehrkreis" of Bf 110 fighters during World War II – and it was applied as late as Operation "Iraqi Freedom" when Marine Corps Humvees attacked Iraqi tanks with their TOW missiles. Furthermore, this synopsis can highlight the **significance** of the **economic perspective** on the military system: First, each military activity features economic aspects because all subsystems of a society are confronted with the fundamental restriction and its implications – like the **scarcity** of resources – and must adapt accordingly. Second, all subsystems can be traced back to one common purpose – improving a society's performance in accordance with its social contract. This implies that the analysis of the military can only **approximate** a "complete" **understanding** when it incorporates the military system's various relations with the other subsystems of society – in particular, the economy. Third, the exposure to the fundamental restriction, the subsystems' shared alignment with the goals of society and the necessity to conduct transactions – under an **optimized** level of friction – between the subsystems, cause the latter to feature **similarities**.

Why Economics of Defense?

37