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## CHAPTER 28

# STATE CAPITALISM IN THE UNITED STATES

## *The Military and Prison Industrial Complexes*

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C28.S1

## INTRODUCTION

C28.P1

ON January 17, 1961 Dwight Eisenhower delivered the following comments in his farewell address as the 34th president of the US, “In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex” (Eisenhower 1961). Over a half century later, Eisenhower’s words seem even more prescient today, as the US defense budget has continuously grown ever since. Such growth surged both before and after Eisenhower’s comments; and particularly during key historical episodes of military conflict such as The First and Second World Wars, Korea prior, and Vietnam, Iraq, and Afghanistan since. As Higgs (1987) has shown, such ratcheting of governmental growth rarely returns to similar trends or levels as observed prior to such military episodes. With \$637 billion spent in 2015, few can deny the daunting size of the American military and the pervasiveness of its impacts. In 2019, the US spent more on national defense than the next seven countries combined (SIPRI, 2019). With active troops since 2001, Afghanistan represented the longest military engagement in US history and resonates with the idea of what some have called the “permanent war economy” (see: Oakes, 1944; Duncan and Coyne, 2013b).

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Describing America’s national defense system as a “military-industrial complex” is now effectively ubiquitous. But the term in Eisenhower’s original usage carried more meaning than a simple reference to fiscal or material size. Notice, Eisenhower’s comments were explicitly comparative. Because, viewing these quantities in relation to the broader functions of government (16% of the national budget) and or the larger national economy (5% of national gross domestic product (GDP)), and viewing these amounts in conjunction with the size of their associated labor forces, evokes a set of more complicated implications.

C28.P3 Such prioritization of militarism is expected of authoritarian or totalitarian regimes, such as Russia or China, as government resources are produced and managed as a direct expression of the interests of state authority. In contrast, democratic regimes are supposed to recognize and convey societal preferences and real social needs through electoral politics and representative government. In contemporary western democracies, national security is typically presumed to be a necessary service for the protection and maintenance of the public interest, but Eisenhower expressed caution and skepticism. In short, we are invited to consider what conditions might allow the actions of the national defense system to diverge from the public welfare amidst even democratic institutions?

C28.P4 First there are opportunity costs to military spending, because all such resources could have been spent and dedicated toward some other public or private endeavors. Whenever such costs exceed benefits, social welfare is weakened. Second, given its domineering size relative to other industrial sectors, the American military system has a significant potential to operate as a formidable special interest group in US politics. Thus, we must be concerned about the compatibility or tension across such interests and the public welfare. Eisenhower posited that military interests could serve as a tail that effectively wags the dog of our government and society. In short, we may get military growth as a consequence of special interests and or sheer industrial entropy rather than, as a necessary biproduct of real security needs.

C28.P5 This chapter surveys a variety of sources demonstrating that Eisenhower's concerns have strong theoretical and empirical support. Furthermore, similar organizational dynamics and real potentials for political influence can be seen to operate throughout other functional areas of American governance (Mueller and Stewart, 2011). Specifically, this chapter will highlight the parallels between the supposed military industrial complex and the similarly, now also ubiquitous idea of a "prison-industrial complex" regarding the US criminal justice system.

C28.P6 While both the military and criminal justice systems are similarly dedicated to providing security, they are obviously different in size, periodicity, and aimed at different targets. The military is concerned with matters of national security from abroad, while incarceration is intended to promote security for the domestic citizenry regarding the potential threat posed by other domestic citizens. Despite these differences of focus, many of the organizational dynamics highlighted by Eisenhower can also be seen in operation on the domestic security front.

C28.P7 The financial budgets, labor forces, and various forms of material production related to crime control have surged in stride with the quintupling of the American incarceration rate (Travis et al., 2014). Given such magnitudes and the rapidity through which they came to be, the American criminal justice system may warrant similar attention and concern as Eisenhower called for regarding the national defense system. While many of the dynamic potentials for over production across military and criminal justice services are similar, some unique issues of differentiation can also be recognized.

C28.P8 For the purposes of this chapter, I define the idea of an "industrial-complex," with regard to two key characteristics. First, an industrial complex demonstrates a systemic penchant for growth independent of real logistic needs. Though often attributed to specifically hawkish partisan interests or vested financial interest groups, such a bias toward growth transcends traditionally dichotomous institutional descriptions such as private contracting or public governmental management. Instead, institutional theory demonstrates that a systemic bias toward inefficient growth can stem from the organizational arrangements of

decision-making common throughout the processes of bureaucratic management, governmental financing, and electoral politics. State capitalism in this context is not a process wherein the state subsumes production and management from an otherwise private industry. Instead, state capitalism regarding military and prison production, shares the private interest motivations common throughout market economies, but leverages bureaucratic organizational hierarchies, and political accountability norms rather than competitive markets.

C28.P9 The second characteristic of an industrial complex is its potential for political and social influence. Any organization of substantial size (public or private) could carry similar political and social impact(s). But such effects are particularly concerning when applied to the violent potentials of state power. Theoretically, it may be reasonable to identify and discuss a “school bus industrial complex” or a “traffic light industrial complex,” as inefficiently excessive productions of each are possible and, by definition, socially suboptimal. But such concepts do not evoke the same political and social ramifications as an excessive quantity of standing armies, fighter jets, prison cells, or militarized police forces.

C28.P10 These two definitional traits beg the question, why and how do such outcomes occur? What caused the military and prison industrial complexes? Some have argued that private contracting and related lobbying is ultimately responsible for military and prison growth and have thus emphasized America’s penchant for free markets and its supposedly high rate of private contracting for traditionally public services.<sup>1</sup> The analysis in this chapter draws heavily from the Public Choice tradition of political economy (see Mueller, 1976), wherein public actors are modeled with the same behavioral assumptions of self-interest, profit motivation, and strategic adaptation, as are actors in the private market sphere (Brennan and Buchanan, 1985). This survey thus contrasts with the perspectives that emphasize private contracting as the ultimate or predominant source of military and prison growth, as the definitional traits of an industrial complex can be seen in the incentive structures of both institutional arrangements regardless of the level of private contracting.

C28.P11 Hence, determining the causal role of private contracting is a contextual and empirical question, as is discerning the social welfare implications of the balance across public and private provisions more generally. First we must answer, what institutional arrangements govern and incentivize financial and managerial decisions? Second, how do additional or fewer private contracts within these particular settings interact with and reshape those incentive patterns? How significant is the potential for over production, given the organizational dynamics across such institutions (both public and private)? In short, the social welfare implications of public military and prison provisions require comparative institutional analysis. Welfare maximizing military and prison services require an understanding of how different institutional arrangements structure incentives and knowledge so that voting citizens, political office holders, and key decision makers can avoid under and over productions at lowest social consequence.

C28.P12 Thus, organizational theory and incentive analysis must play a critical role for understanding the growth trends of both American national defense and the US criminal justice system. Hence, the second unique contribution of this survey stems from its consistent

<sup>1</sup> Regarding the pernicious role of private contracting for US military services, see (Engelbrecht and Hanighen, 1934; Hartung, 2011). Regarding the potentially pernicious role of private contracting for prison services see (Hart et al., 1997).

framework for understanding these trends and the related strategies for effective reform. If we embrace and accept what Eisenhower highlighted—systemic growth in security services is socially disconcerting—and we further accept that such outcomes are primarily and or inherently a product of institutional and organizational dynamics; then, avoiding such outcomes must be attenuated at the level of constitutional design rather than traditional democratic campaigns. Institutional problems require institutional solutions.

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The remainder of this chapter is organized as follows. The first section explains and surveys the theoretical foundations for understanding bureaucratic growth and socially inefficient over production. Four avenues are identified and explained through which systemic tendencies for over production can occur within the institutional decision-making processes of military services. The following section proceeds to explain how the institutional dynamics of criminal justice services are similarly but distinctively structured to military services with some unique manifestations for over production. The final section provides concluding remarks and identifies some areas for future potential research.

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## THE INCENTIVE DYNAMICS OF MILITARY BUREAUCRACIES

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Though leveraged as political rhetoric, Eisenhower's idea of a military-industrial complex is well supported by social science theory and evidence. National defense is typically presumed to be a "public good"—both non-rivalrous and nonexcludable (Cowen, 2007). If provided through voluntary contributions, one user's consumption of a non-rivalrous resource does not detract from the utility and or potential consumption by others. Non-excludability implies that nonpayers cannot effectively be stopped from benefitting from the service. Thus once in place, national defense resources provide security to the entire population, relatively equally, and irrespective of how much any individual personally contributes to their costs and or maintenance. These conditions create substantial challenges to optimal production and efficient allocations via private voluntary contracts and market economies, as individual citizens are inclined to free ride, over consume, and under maintain the relevant resources (Hardin, 1968).

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Given the incentives for under-production via private and voluntary arrangements, national defense is most often presumed the necessary and proper role of governmental financing and or public management. National defense and military services are financed and organized by governmental authority in the US, as are military resources similarly coordinated governmentally throughout virtually every formal nation state and advanced western society. As such, the government leverages bureaucratic organizations to manage military decision making across the separate branches of the armed services. Such bureaucracies are decision-making bodies of appointed officials (not typically subject to direct elections), who receive financial budgets and facilitate operations according to some hierarchical system of authority.

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This begs the question as to what particular incentive dynamics and likely outcomes occur when financing and management decisions are centrally governed. While theory and evidence well establishes the potentials for under provision by voluntary contracts, little

attention is typically given to governmental failures or how they relate to social welfare.<sup>2</sup> In short, a variety of insights from organizational theory demonstrate how bureaucracies can create and maintain incentive structures that promote excessive production outcomes.

C28.P17 Here, some basic aspects of welfare economics are useful. In theory, there is some optimal quantity and quality bundle of military resources that best promotes national security at the lowest possible social cost. This output bundle presumably maximizes social welfare in so far as marginal costs are equal to marginal benefits (Samuelson, 1947). Under provision occurs when society assumes too great a risk from insecurity, because at the margin more security would yield greater value than what an additional unit would cost. Inversely, over production occurs when society obtains less value from additional security than what is paid. In short, the resources would have been better spent on something else.

C28.P18 Such naturally begs a philosophical question, perhaps beyond the scope of this analysis; mainly, how do we know what is “best for society” in terms of national defense? Is the socially optimal quantity and quality of national defense objectively discernable through deductive logic and reason; or is it, like optimality conditions in the market place, socially contingent and subjectively defined by the relevant decision makers? Who are the proper set of decision makers and by what process can they make this decision? Is the aggregate of democratic public opinion an accurate gauge of socially optimal defense strategies; or is official authority and expertise necessary for discerning national security needs? This analysis does not need to resolve such deep and complex questions. All that is needed for these purposes is to recognize that such ambiguities are inherent across all institutional alternatives.

C28.P19 Private individuals in traditional markets interact with unique forms of knowledge and incentives relative to bureaucratic officials making choices for the sake of a collective group interest. When private individuals buy and sell in a market place, opportunity costs are easily recognized and evaluated against production and consumption decisions, because buyers know the price spreads for the various goods and services that they chose between. So long as a choice to buy reflects all of the available information and is freely consented to, such behaviors presumably best promote the wellbeing (subjectively defined) of the buyers and sellers involved. In contrast, a bureaucratic official is entrusted with the responsibility to put aside self-interest and personal bias to best promote the wellbeing of society as a whole.

C28.P20 In short, all institutional arrangements must leverage some formal organizational patterns and hierarchies of decision-making to accomplish their respective tasks. Thus, all organizational forms impact the ways that their decision makers produce, recognize, and act upon knowledge therein. And all organizational forms shape the incentives of their decision makers. Furthermore, all institutional patterns have some potential(s) for error, and some institutional set ups are more prone to some form(s) of errors relative to others. Hence, the task at hand is to survey the systemic knowledge and incentive potentials for excessive military productions across different institutional arrangements.

<sup>2</sup> Buchanan (1999) described the Public Choice research program as a specific compliment to traditional market failure analysis. Market failure theory often suffers a nirvana fallacy regarding the potentials of government to resolve externalities, but Public Choice provides the necessary description of governmental failures to more fully inform a societal cost benefit and comparative institutional analysis. Some studies have shown a virtual absence of governmental failure in prominent economics textbooks (Fike and Gwartney, 2015).

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Again, all institutional patterns are subject to error. In this context, error can be defined as producing outcomes that deviate from the social optimum. Systemic overproduction is one particular form of such error. Furthermore, systemic error can occur through any or all of four potential avenues. First, institutions can be biased toward error by overt corruption and capture by private interests. Second, institutional arrangements can err because of the relative ignorance or inaccuracies of knowledge confronted by decision makers therein. Furthermore, these “knowledge problems” can stem from either informational asymmetry, when decision makers do not have full access to the types of information necessary for error correction and adaptation; or knowledge problems can stem from inherent psychological and behavioral biases. Third, error can stem from incentive arrangements produced by the organizational patterns of authority leveraged by the particular institutional arrangement, irrespective of the intentions or informational accuracies of the decision makers therein. Fourth, any or all of the previous three avenues of bias and error may have interactive effects with the institutional and organizational dynamics of electoral democracy.

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Are the decision-making processes, used to finance and manage national security resources, well equipped to avoid corruptions or accurately weight the costs and benefits of military resources against other social endeavors? Are the entrusted decision makers well incentivized to make these decisions in line with the conditions of social welfare? Does our system of electoral politics well attenuate or exaggerate the potentials for error within the institutional arrangements typically leveraged to finance and manage the American military? To answer such questions requires analyzing the operational dynamics of the real institutions involved. To resolve the subsequent social welfare implications may further entail comparing such systemic potentials and tendencies across other viable institutional alternatives.

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The American military is arranged as a network of integrated bureaucracies. While each separable branch of the armed services enjoys a level of autonomy regarding the daily operations and production decisions within its purview, all such branches are ultimately governed and financially dependent upon the federal governments’ legislative and budgetary authority. This organizational arrangement has distinctive potentials for error and overproduction apart from a competitive market economy and somewhat distinct from other bureaucratic institutional arrangements. Four potential avenues for error and bias toward inefficient over production in the American military system will now be surveyed.

C28.S3

## CAPTURE BY PRIVATE INTERESTS

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Special interests may hold unique preferences regarding military spending and operations that are distinct from, and or overtly at odds with, the public interest. For example, suppose a high-ranking military official harbors a unique animosity against or affinity for a particular foreign nation. It is easy to imagine that such an individual, when in a position of power, may use such authority to make decisions regarding national security more representative of his personal biases than reflective of the public welfare. Such is most obvious in the contexts of totalitarian and authoritarian regimes as military funding and operational decisions are less subjected to checks and balances or electoral oversight relative to institutional structures under democracy.



C28.P25 Such forms of capture by private interest need not fully originate within the formal confines of the military and its network of appointed decision makers. Outside individuals and private interest groups can indirectly shape military decision-making processes via lobbying and other political channels (Stigler, 1971). For example, suppose a private company's only competitor exists within a foreign country that poses some threat to national security. The domestic firm may have some vested interest in supporting military engagement that disrupts the business operations of their foreign competitor(s).

C28.P26 Such errors can conceptually produce too much or too little national security. However, a bias toward excessive militarism seems more probable if we assume and or recognize that expanded military power usually services the interests of those in positions of military and political power.

## C28.S4 Knowledge Problems

C28.P27 Suboptimal outcomes can stem from an institutional arrangement's inability to produce and assess knowledge and information accurately. Such "knowledge problems," typically refer to the ability of firms to effectively leverage information so as to make logistic decisions of optimal production and distribution. How much, of what type, for whom, and when should resources be produced and distributed? In conventional markets, the price system, accompanied by private property rights and profit motives, serve as epistemic mechanisms to guide the decisions of competitive firms toward outcomes aligned with social preferences. If production levels are too high relative to societal demands, then excessive supplies on the market drive down prices, and firms are inclined to reduce outputs and save on costs. The inverse is true for underproduction (Hayek, 1945). Hence, private market economies tend to resolve knowledge problems and produce efficient quantities and qualities of output in so far as efficiency is defined by societal preferences, and in so far as those preferences are well informed, and property rights are well defined.

C28.P28 In the absence of similar epistemic guideposts as market prices, bureaucracies must leverage alternative methods to motivate production and allocation decisions. Decision-making authority within the armed services is typically awarded according to hierarchical standards of rank, experience, and expertise. Again, this analysis makes no claim about the legitimacy or necessity of military appointments relative to private labor practices. One can easily recognize that with the unique conditions of high risk, temporally sensitive emergency situations, and the frequent need for secrecy, that military decision-making may warrant and demand authority relationships wholly different from conventional market contexts. However, such an admission does not immunize military bureaucracies or the decision makers therein from the epistemic challenges of knowledge problems.

C28.P29 First, as Eisenhower was correct to point out, military productions must draw upon physical and labor resources from the larger society and economy. The same is essentially true of any organizational firm (Coase, 1937). As a business internalizes production and allocation decisions it reduces the precision of marginal cost benefit calculations related to those operations. Should a supplier produce needed supplies for its final service in house, or should it rely on outside contracts? Firms internalize those resource functions to the extent that such processes are less costly than the repeated transactions associated with outside contracting. Businesses typically stock their offices with basic supplies like letterhead and

paperclips because the costs of expecting individual staff members to repeatedly contract out for such resources are high relative to the costs of internalization.

C28.P30 Military organizations similarly reduce their calculative efficiency when they become more centralized and internalize a wider swath of operations, but unlike private firms, military services are not wholly motivated by financial profits, nor do they conform to competitive market pressures. Whereas businesses that choose to internalize too many or too few aspects of their broader production functions will suffer in terms of profits and market share; military bureaucracies perceive competitive pressure primarily from geopolitical relations and or public opinion via democratic elections. If a business internalizes too many endeavors, it loses profit relative to its competitors. If the military produces too many resources internally it may maintain military superiority at the consequence of social welfare via forgone opportunity costs; or inefficient internalizations can weaken the military's relative security powers compared to other nations.

C28.P31 Here there is good reason to recognize a potential for over production bias stemming from strategic asymmetries. Inefficient production decisions that reduce military power pose a different form of societal risk than those that inefficiently over secure military power. Being overly invested in military power means maintaining superiority over other nations' defense systems, which would logically align with the interests of US military and political authorities. It also means forgoing other more socially beneficial spending avenues such as under-funded education or infrastructure. Military decision makers do not directly or personally feel the costs endured by the under investments in these alternative social spending avenues. Hence, from the perspective of military decision makers, preferring the societal risks of over-militarization is often rational in so far as the voting electorate does not impose a strong or direct form of negative feedback against military excess.

C28.P32 Related to internalization, another knowledge problem relates to the proper level of locality for effective decision making. Socialism effectively represented an attempt to fully internalize and centralize the entirety of economic production and distribution across an entire nation. Hence, given the scale of the calculation challenges at play, socialist economic planning was an inevitable failure (Mises, 1981). However, additional inefficiencies stemmed from the fact that government officials simply did not know or have reliable access to the same or necessary forms of information that motivated effective economic decision makers at the local level throughout the economy (Hayek, 1945). With regard to military operations, it is typically presumed that office holders possess superior knowledge and expertise over local level citizens. Such presumptions appear reasonable when thinking in terms of missile defense shields, naval, or aerospace operations. But such assumptions have greater potential for error and oversight when the logistics of national security relate more to intelligence gathering and or new areas of technological sophistication like cyber security.

C28.P33 It is important to recognize that the forms of knowledge necessary for efficient production and distribution of economic resources are not merely forms of informational data. They entail real human perceptions of costs, benefits, risks, and forgone opportunities. Thus, knowledge problems cannot be fully resolved merely by advancements or larger applications of information, communication, or calculation technologies.

C28.P34 Furthermore, such knowledge problems become more challenging, the more complex and abstract the goals of an organization tend to be (Rizzo, 2005). In our technologically advanced and more socially progressive present, military operations are no longer aimed at conquest, nor purely dedicated to defensive endeavors; current objectives include



abstract goals such as regime change, the establishment, and/or maintenance of social order, and or full-scale state building. As Coyne (2008) has argued and demonstrated, knowledge problems permeate all such endeavors, perhaps more so now than throughout the historic past. The performance record of such efforts has also proven to be unimpressive (Coyne, 2007).

C28.P35 There are psychological reasons to believe and evidence supporting the idea that ordinary people tend to be biased toward punitive severity, and tend to be hawkish or overly paranoid about foreign security threats rather than calculative and rational. Under estimating the risks of death tend to be perceived as more costly than errors of over estimation, and thus overestimations tend to be selected for across evolutionary contexts (see Kahneman and Renshon, 2009 for a thorough survey).

C28.P36 In general, human beings are neither accurate nor precise estimators of very large or very small risks. Such inaccuracies are heightened when violence and or death is on the line. Hence, humans tend to be risk averse and overly precautions when considering the value of human life, especially one's own life, at least in the abstract.

C28.P37 One way to approach the potentials for inefficient military excess that may stem from psychological and behavioral biases is to recognize that all human beings in both the private and public sphere are prone to such errors, and thus design protocols to mitigate against such biases. Another approach would be to front load the appointment processes in an effort to avoid those individuals whom may be more subject and prone to such biases relative to other members of the population or include some protocols that directly offset and or adjust for latent behavioral biases. It remains an empirical and historical question as to if or how well appointment and decision-making protocols within the military effectively mitigate against such biases or potentially exaggerates them.

## C28.S5 INCENTIVES AND ORGANIZATIONAL HIERARCHIES

C28.P38 In general terms, bureaucracies create and maintain incentive patterns that systemically encourage growth, irrespective of logistic needs or public interest. The basic incentive assumptions undergirding bureaucratic operations are not substantially different from how economists model private actors in the market economy. In a sense, every business owner effectively "wants" her business to be larger and control a more dominant market share. The basic motivations for monopolization are omnipresent throughout the market but forestalled to the extent that avenues for competition are maintained (Blinder et al., 2001).

C28.P39 Public bureaucracies do not have access to a pool of laborers immune to the basic tenants of self-interest and profit seeking. Hence, even individuals appointed to offices supposedly dedicated to the public interest can still be seen to accord their behaviors to personal self-interest and profit maximization. Individuals within bureaucracies are inclined to generally prefer and act so as to obtain higher wage rates for themselves, larger budgets for their respective bureaucracies, and broader swaths of discretionary authority for their organizational units (Niskanen, 1968; Tullock, 2005).

C28.P40 In this vain, we must recognize that every person who earns a salary both directly and indirectly related to military operations, essentially has a vested interest and latent incentive toward the budgetary and operational growth of the national defense system. In so far as these

individuals recognize and express this interest above or beyond other counter balancing factors, military size has a bias toward growth and a politically reinforcing tendency.

C28.P41 Bureaucracies leverage unique processes for budgetary acquisitions and allocations apart from firms in a market economy. Unlike for-profit businesses, wherein operational budgets are created from revenue streams via sales, and motivated toward cost efficiencies by competition and profit, bureaucracies receive budgets from some superior-authoritative organizational unit. Again, the different branches of the military are ultimately dependent upon the federal government for their budgets. This concentration of demand by a dominant single source creates larger opportunities for capture and lobbying than what is expected under decentralized and competitive conditions. Hence, this financial dependency creates incentives often at odds with efficient production decisions.

C28.P42 In short, bureaucracies are inclined to maximize budgets rather than economize, as they are not residual claimants in cost savings. When a bureau reports lower expenditures than previously forecasted, higher authority levels are inclined to reduce future allocations to those lower-level agencies that spent less previously. Hence, lower-level agencies are inclined to fully expend their budgets and continually ask for larger sums (Niskanen, 1971). Furthermore, the multiplicity of lower-level agencies sharing scarce dollar pools from higher authority levels creates a competitive incentive to obtain scarce resources (Hardin, 1974).

C28.P43 Apart from knowledge problems and behavioral psychology, systemic bias toward over production can occur via the incentive arrangements created by particular organizational arrangements, such as bureaucracies and hierarchical decision making. Sah and Stiglitz (1986) have shown that more hierarchical organizations are prone to unique forms of error relative to more decentralized systems. Specifically, “one would expect a greater incidence of Type-II [false negative] errors in a polyarchy, and a greater incidence of Type-I [false positive] errors in a hierarchy” (716). These systemic differences stem largely from the differences in incentives and informational flows that result from the different numbers of authority holders across systems. With fewer agents holding more discretionary control, over identification of security threats is often a rational strategy for military decision makers.

C28.P44 Furthermore, just as some organizational arrangements are more prone to certain forms of error relative to others, some organizational types are more prone to capture than others. Again, standard theory suggests more centrally managed hierarchies tend to foster greater rates of rent-seeking and capture, as checks and balances of power tend to be less vetted and less self-reinforcing (Tullock, 1967; Krueger, 1974). Furthermore, capture is more incentivized when the relevant industry possesses a unique status of special authority or expertise (Laffont and Tirole, 1991), as the military does. However, without relying upon the presumption of malicious or conspiratorial self-interests, some organizational structures may incentivize financial and logistic decisions that happen to be at odds with social welfare even without an intentional interest group.

## ELECTORAL DEMOCRACY

C28.P45 Military decision-making processes are all nested within a political context. In a democracy military authorities are at least accountable to some potential feedback from electoral processes more so than when military authority is fully controlled by totalitarian or less

democratic political systems. In so far as military appointments are subject to selection and approval by political office holders, and in so far as such office holders are appointed by democratically elected officials, public opinion operates as a loose or indirect check upon military decisions. If military operations run too far afield of public opinion for too long, electoral politics can serve as a corrective force. Though such political accountability is at best a loose and indirect form of feedback and again, an uncertain estimator of social welfare.

C28.P46 The influence of public opinion via democratic influence also confronts knowledge problems. As mentioned earlier, military decision-making seems different in type from ordinary decisions in the market place. The logistic decisions of traditional suppliers aim to appease societal preferences for the sake of profit maximization. In the absence of large externalities, whatever distribution and pattern of final goods and services consumers demand is, by definition, representative of social welfare. There is not much meaning to the idea of wrong or incorrect public opinions regarding how many or of what type of fast-food restaurants ought to operate. In contrast, it is less clear that the socially optimal pattern of military resources is whatever arrangement the public happens to demand. In short, the public may not know correctly what the practical needs of national security are. To the extent that the general public exhibits a bias in favor of expansionary military productions, it is reasonable to expect that political influence upon military decision-making will parallel such biases (Flores-Macias and Kreps, 2015).

C28.P47 Cultural norms regarding patriotism and national pride may further exaggerate such biases. While the challenge of efficient productions of national defense is likely complex and nuanced, voting for candidates who campaign on promilitary platforms at least feels like practical efforts are being taken to assure national security. (Brennan and Lomasky, 1993).

C28.P48 Electoral democracy may also exaggerate such biases and insulate hawkish public opinions from more efficient investments in more accurate information gathering and belief formation (Down, 1957; Caplan, 2000, 2008). Individual members of the public do not enjoy private marginal benefits when military operations better align with social efficiency, nor do individual members endure private marginal costs when military operations veer from social efficiency. Thus, even if military office holders were somehow immune to behavioral and psychological biases, democratic incentives could still motivate politicians to pander to the public's hawkish preferences. Such theoretical concerns at least fit compatibly with available measures of public opinion and observed electoral strategies (Russett, 1990–1991).

## PRISON INDUSTRIALIZATION IN AMERICA

C28.S7

C28.P49 In 1961, the same year as Eisenhower's remarks, the US housed approximately 210,149 inmates in state and federal corrections institutions (Langman et al., 1988). This represented an incarceration rate of approximately 126 per 100,000 citizens housed across 45 federal facilities and no more than 578 state facilities (Langman et al., 1988, 69). As of 1958 (the closest year on record), US state and federal prisons directly employed 38,922 employees (1,262 of which were part time staff) (Langman et al., 1988, 70).

C28.P50 By 2008, with nearly 2.3 million total inmates and a rate of 710 prisoners per 100,000 citizens, the US represented the largest incarcerated population rate and on net, around the globe, and throughout modern history (Kaeble and Cowhig, 2018). By fiscal year 2006 (the

closest and most recent year on file), \$214,494,103,000 was spent across the various services of the American criminal justice system with \$68,747,203,000 spent on corrections. In the same year, the US criminal justice system employed 2,427,452 workers across its various functions, with 765,466 employees in corrections (Perry, 2008).

C28.P51 Much of this extreme growth occurred in conspicuous lock step with the 1980s war on drugs and its related “tough on crime” movement. Criminal legislations, sentencing guidelines, and financial incentives were all newly designed and managed at the federal level in response to perceptions of high crime and drug abuse.

C28.P52 Prison growth has tapered a bit in recent years with substantial reforms in key states like California (Raphael and Stoll, 2013), leaving over 2.1 million inmates by the end of 2016 (Kaeble and Cowhig, 2018). Hence, the aggregate national rate remains the global leader amongst western developed nations today. Today, we have no shortage of competing explanations for why incarceration rates in the US are the highest in the developed world, and why they accumulated so swiftly at the tail end of the twentieth century. While private prisons and their overt lobbying efforts are often cited in popular commentaries and activist reform campaigns (Reiman, 1979; Christie, 1993), empirical research is approaching at least a loose consensus that private contracting is not an ultimate or predominant cause of American prison growth (see, most notably: Pfaff, 2017). In short, private prisons comprise a very small number of total facilities in the US, and are over represented in servicing federal relative to state inmates. Whereas state prison growth is the super majority of where prison population growth has occurred. Furthermore the number of formally unionized prison workers in public facilities dwarfs the number of privately contracted prison workers.

C28.P53 This chapter does not attempt to fully adjudicate across the contending theories of mass incarceration. Rather, the thesis herein is merely that the potential for systemic prison growth transcends the conventional dichotomy of governmental versus market management. In turn, the intention is to demonstrate the latent potentials for prison growth that stem from governmental failures in the particular organizational arrangements used, mainly, bureaucratic management, governmental financing, and electoral politics.

C28.P54 The general facts of prison growth allude to the pressing need for an institutional account of overproduction bias as the broader tendencies for multiplicative growth transcend the American context. With 68% of countries observed experiencing substantial growth, mass incarceration is effectively a global phenomenon (Walmsley, 2003). Furthermore, with growing national attention, reform efforts have been varied in type, and applied across a diverse sample of partisan regimes. Thus, there is good reason to suspect that the ultimate causes of prison growth are more complex and or more foundational than idiosyncrasies of American politics, unique features of US history and culture, and or American proclivities for private market contracting or market-liberal policy making.

C28.P55 The American criminal justice system is often described, in terms similar to Eisenhower's, as a “prison industrial complex”; again, with good reason. In short, the organizational arrangements within the US criminal justice system create and foster incentive processes that systematically promote expansive growth and political self-reaffirmation in ways akin to our system of national defense services.

C28.P56 In parallel welfare economic terms as seen previously for national defense, one can imagine some socially optimal production and distribution of criminal justice resources that maximizes the domestic security of citizens against criminal harms at the lowest possible

cost. Under production would mean that marginal gains from more criminal justice services were greater than the social costs. Inversely, excessive production would imply that the value of other private or public spending avenues would have been greater than the costs spent on criminal justice services.

C28.P57 The organizational structure of the American criminal justice system is far afield from a fully privatized market order, but also distinct from the administration of the US national defense system. Whereas federal authority predominantly coordinates the defense industry, the criminal justice system operates as a looser network of relatively independent state bureaucracies. While some argue that US prison exceptionalism is largely the result of its unique decentralized federalist structure (Lacey and Soskice, 2015), a growing body of legal history (Stuntz, 2011; Murakawa, 2014; Hinton, 2017) and empirical work (D'Amico and Williamson, 2019) describes a consistent relationship between prison growth and institutional centralization. In this latter view, US incarceration is more comparable to authoritarian regimes such as Russia and China rather than other western developed nations (see also D'Amico and Williamson, 2015). In other words, amidst the twentieth century the specific institutional arena of criminal justice has become far more centralized than other spheres of American law, and likely more centralized and federally managed than is common throughout other developed nations. Hence, American criminal justice is organizationally more similar to the consistent forms of heavy-handed command and control observed throughout the generally centralized regimes of Russia and China. Private capture, knowledge problems, behavioral biases, and incentive dilemmas are all at play within the unique bureaucratic financing and management procedures of the American criminal justice system.

C28.P58 With regards to capture by private interests, the American criminal justice system is likely more prone to capture than say a traditionally private market for ordinary goods and services, as criminal justice authority is more hierarchically organized and less subject to competitive pressure. However, the chain of administrative authority in the criminal justice system is decidedly less centrally managed at the federal level than the armed services. In short, a particularly biased individual gaining a position of discretionary authority within the US military has a distinct and perhaps larger sphere of authority to impose his socially inefficient biases. The national citizenry collectively carries this burden of sub optimality. Criminal justice positions of authority can also be similarly captured, a police officer may harbor racial prejudices, but the scope of the impact from said prejudice is more limited to the state and local levels.

C28.P59 One form of capture particularly unique to the criminal justice system stems from the interaction between criminal legislation and criminal enforcement. In short, the expression of private bias by individual decision makers such as officers, prosecutors, jury members, and prison officials is given a greater frequency of opportunity when the criminal law is more expansive, complicated, and punitively gauged. For one example, supposedly prejudiced officers are afforded a stronger potential to discriminate when speed limits are set low enough to make virtually everyone a violator (Silvergate and Dershowitz, 2011). While explicit bias is difficult to empirically verify and discern with precision, racially disparate application of violent police force tactics is well-established for all but deathly violence (Fryer, forthcoming).

C28.P60 With regard to the potential role of private contractors, it is worth noting again that bureaucratic incentives similarly motivate public workers toward tough on crime policies and

general growth of criminal justice budgets and resources. The network of unionized prison guards, police officers, public prosecutors, and other related legal and judicial officials all have a similarly vested interest in expansive policy making as do private contractors and unionists. Empirically speaking, the public sector significantly dwarfs the private at present and throughout modern American history (Pfaff, 2017). In so far as policy changes such as Citizen's United expand such opportunities, one would expect exaggerated outcomes to follow in stride.

C28.P61 The criminal justice system also confronts knowledge problems. Similar to the challenges of optimal internalization confronted by military decision makers, the criminal justice system must rely upon material and labor resources that could have otherwise produced value in the private sector. Again, the criminal justice system faces a serious ambiguity while assessing accurately the costs and benefits of marginal production decisions of more or less criminal justice services against other social spending avenues or private market productions. However, the scope of opportunity costs confronted by criminal justice decision makers are obviously distinct from military decision makers as criminal justice is again a more localized endeavor. Military spending may come at the expense of federal grant money to higher education or interstate highways, whereas increased police and prison spending must trade off against state level public programs.

C28.P62 Furthermore, the criminal justice system must make allocation decisions across its various operations. Whereas national security decisions must decide how to bundle resources optimally across things like the air force versus army and naval services and so on, criminal justice allocations must choose across policing relative to prison services? In no uncertain terms, this decision has in fact heavily leaned toward punitivity and away from preventative policing in recent decades, as the US spent a 3:1 ratio across police and prisons in the 1970s but only 1.5:1 today (Sourcebook of Criminal Justice Statistics, 2013).

C28.P63 The incentive dynamics of the criminal justice system are also unique relative to the national defense system. Again, this is largely because the bureaucratic organization of criminal justice retains a stronger degree of autonomy at the state level. Avio (2003) surveys Nardulli (1984); Gierts and Nardulli (1985); Benson and Wollan (1989); and Benson (1990 and 1994) demonstrating that state level decision makers can gain local electoral benefits for state constituents while differing costs to the national citizenry. Hence state jurisdictions are continuously trapped in a tragedy of the commons, competing against each other for scarce national resources and generally encouraged by local electoral incentives and the concentration of benefits and dispersion of costs.

C28.P64 Electoral democracy has a similar potential to interact and or reshape the other avenues of bias as it does with national defense. As one would expect the tendencies of behavioral bias toward militarism that likely guide public opinion in matters of national security, ordinary citizens tend to demonstrate punitive biases in experimental settings. It is well-established that dedicated time and attention throughout local and national media disproportionately elevates violent crime. Empirical measures consistently show a deep divide between the facts and realities of criminal justice and public opinion. In short, citizens believe crime is more severe and frequent than it is, and that punitive sanctions are more affordable and effective than they are (Enns, 2016). Such patterns conform to the idea of "rational irrationality," which suggests the public is not merely ignorant but systematically misinformed (Caplan, 2000, 2008).



## CONCLUSION

C28.S8

C28.P65 Entropic military growth and or growth of the criminal justice system can be at least theoretically driven by special interests, knowledge problems, psychological and behavioral tendencies, basic bureaucratic incentives, and electoral politics. What can be said is that the theoretical and practical potentials for over production are in place throughout both bureaucratic systems irrespective of private contracting. There is little to no need for additional research demonstrating this well-established and general insight of organizational dynamics, although its common acceptance and engagement by activist efforts lags. Future research must instead take comparative empirical approaches to heart. How do national contexts differ with regard to effective constraints on growth via checks, balances, oversight and accountability? How do such incentives for growth interact with each other and with other incentive structures amidst coexisting institutions (changes in the economy, and or sociocultural norms, and so on), and to what extent? What viable strategies across political contexts would work best within the nations enduring the largest forms of military and penal growth? All remain practical and empirical questions in need of further study and demonstration.

C28.P66 Given available organizational theory and evidence, there appears good reason to suspect that purely volitional and private market arrangements would systemically suffer from under provision. Without compulsive financing through taxation, private actors have weak incentives for contributing investments, and furthermore they have strong incentives for free riding. In contrast, public management via governmental bureaucracies tends to systematically over produce goods and services. With basic incentives for job preservation, personal wage growth, and discretionary budget expansion, decision makers are perpetually encouraged to over produce. Hence, determining social welfare requires comparing how the societal costs associated with the potentials of private under-production compare with the systemic possibilities and consequences of public over-production given the organizational dynamics at play. A full and accurate framework for assessing the social welfare implications of military and prison industrialism requires a recognition of the systemic potentials of over production inherent to publicly managed and financed bureaucracies to accompany the common place concerns regarding the under provision of public goods via private market channels.

C28.P67 While partisan reforms may reshape outcomes on the margin, this analysis suggests that the broader tendencies and magnitudes of military and prison growth are largely determined at what Brennan and Buchanan (1985) referred to as the “pre-constitutional level.” Whereas citizens and policy makers make choices about how much or to what extent these services should be provided, traditional campaigns pay little attention and bear little relevance to the organizational arrangements of how such services are managed and financed across the private and public spheres. In result, this observation as to the limited potential of activist reform efforts fits compatibly with the observation that persistent growth in the defense and criminal justice sectors has persisted throughout diverse partisan administrations and long run oscillations of voter opinion as well as the fact that varied reform efforts have not substantially reshaped outcomes.

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