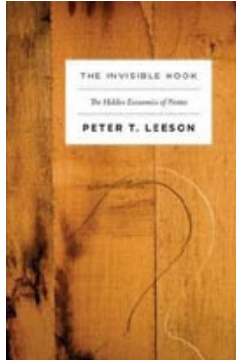




# Liberty and the seven seas

Tim Wilson reviews  
*The Invisible Hook:  
The Hidden Economics of  
Pirates*  
by Peter Leeson  
(Princeton University Press,  
2009, 296 pages)



Would you believe that some of the earliest examples of the separation of powers preceded the foundation of American government, but originated on the high seas? Or that emancipation of African slaves was led by Long John Silver, not Abraham Lincoln?

Peter Leeson's *The Invisible Hook* argues that many of the founding principles of capitalist, liberal democracies are not rooted in the Glorious Revolution or the writing of the Declaration of Independence; but the incentive structures necessary to keep a group of rowdy ocean-bound outlaws working as a team of ruthless sea bandits.

In popular media pirates are presented as an ill-disciplined ramshackle of entirely self-interested robbers who plunder merchant ships and seek out buried treasure. But according to Leeson 'a pirate ship more closely resembled a Fortune 500 company'. Leeson argues that in pursuit of profit they learned to apply economic and self-regulatory principles through structures of private governance to avoid their ships becoming 'rock 'em-sock 'em, anything goes-type atmospheres'.

Leeson's assessment is that Adam Smith's invisible hand that delivers society-wide benefits from individuals pursuing their own interests operated in pirate

societies as well. But there are differences between Smith's invisible hand and its metallic equivalent.

The hook 'considers criminal self-interest's effect on cooperation in pirate society... (and) pirates weren't primarily in the business of selling anything... therefore didn't have customers they needed to satisfy'.

Pirates became pirates for two very simple reasons—profit and better working conditions. Sea goers on a merchant ship earned the equivalent of a modern minimum wage and suffered under the harsh hand of captains who mistreated them. Whereas 'a single successful pirating expedition could make a sailor wealthy enough to retire' and rules were established to ensure pirates were treated well and even enjoyed workers compensation.

Before pirates joined a ship they were required to sign up to a constitution that set compulsory rules. Their constitutions were designed to achieve three objectives, first to stop conflict amongst themselves, second to stop negative externalities and third to maintain incentives to avoid free riding.

These rules were surprisingly detailed from outlawing gambling because it would lead to fighting, forced bedtimes to ensure members were well-rested, and requiring weapons be kept clean to ensure they can engage in battle immediately.

But once the constitution was established, resolutions were made by a simple

majority, including election of a captain. One of the principles of a pirate constitution was to elect captains and limit their powers. And pirates exercised their right to democracy regularly—'one crew went through thirteen captains in the space of a single voyage'.

Outside of battle where captains had absolute authority, pirate constitutions also established the separation of powers to keep checks and balances on their elected representative.

Other officers were also elected and afforded responsibilities to diffuse power. The second position onboard was that of an elected quartermaster who held almost equivalent authority and position to the captain, and whose position was often used as a stepping stone for the top job.

Pirates clearly understood the risks they faced and the incentives necessary to overcome them. For example, to address the risk of free riding, because a selfish pirate could always hold back from battle and still enjoy the spoils, a private system of workers compensation was established and additional booty was allocated to those injured. And to avoid disputes about sharing booty, pirates all took an equal share.

Even the 'Jolly Roger' skulls and crossbones flag would have made a modern marketing executive proud. It was designed to frighten potential opponents into surrendering without a fight, reducing the potential liabilities of plundering.

But whether by the figurative dead hand of government regulation, or the literal dead hand of the hook, what *The Invisible Hook* demonstrates is that at heart all people seek to pursue their self-interest. And even in the absence of formal government people recognise the need to develop private governance and in the process of achieving their own interest, do so for their fellow buccaneers as well.

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