



## Pirates and Bandits and Anarchy

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Are there any circumstances where ‘good’ anarchy can outperform ‘poor’ government? Peter Leeson’s new book *Anarchy Unbound: Why Self-Governance Works Better Than You Think* is the latest political analysis of anarchy— that is, where self-governance and private institutions are producers of order. Leeson uses empirical case studies—from orderly pirates to curse-casting monks—to explore how civil-society self-governance may be more efficient than their government alternative. His overarching argument is that individuals, by developing private institutions and cooperating through them, can outperform the government alternative.

What is important about Leeson’s approach, and that of scholars in his tradition, is that anarchy is much less about lack of government, and more to do with private institutions of governance. Nobel Laureate Douglass North described institutions as the ‘humanly devised constraints that structure political, economic and social interactions.’ Broadly speaking these are the ‘rules of the game’ or the socially embedded rules in society, and includes marriage and democracy. North stresses that these should not be confused with organisations: ‘if institutions are the rules of the game, organizations and their entrepreneurs are the players.’ That is, ‘organizations are made up of



groups of individuals bound together by some common purpose to achieve certain objectives.’ Within this context, Leeson’s work still accepts Adam Smith’s famous invisible hand. Yet he expands upon this concept—individuals no longer act only within institutions, they can create them. What is now possible is the private production of orderly self-governing institutions.

An orderly society can be conceived of as an economic good. Order is an economic good because it allows us to move from a state of lesser cooperation and conflict, to one of greater cooperation and trade. The common story is that as governments are the only effective producers of order, we must choose governments. However, this assumes that government is an efficient producer of order. Sure, government may be the obvious choice, yet it is not controversial to suggest government is sometimes costly, inefficient, wasteful and corrupt.

If we were looking to produce any other good, we would shop around for better producers at a lower cost. If we think of order in this way, it raises a number of questions. What or who are the alternative producers of order? Is there a producer that generates less order, but with a substantially lower cost? What about a producer that actually outperforms government in terms of outcomes *and* cost?

As Leeson playfully notes on his blog, ‘if conventional wisdom is right then reality must be wrong.’ *Anarchy Unbound* challenges the conventional wisdom that the potential range of self-governance mechanisms is extremely limited. What is most impressive is the way Leeson systematically debunks situations where anarchy is already assumed to fail. Rather than taking a hypothetical, philosophical or morality-based focus on anarchism, Leeson points to successful cases of anarchy in the middle three parts of his book.

Be ready to step away from two main assumptions. The first is that governments are all-knowing, benevolent and upstanding producers of order. The second assumption—and one much harder to digest—is that anarchy is a chaotic, messy and violent producer of order. Only then can it be asked: can good anarchy outperform bad government? According to Leeson, the answer appears to be yes—sometimes.

The shortcomings of government require little elaboration. The unfortunate bad name of anarchy can be traced a long way back. What about violent, plundering, and rowdy seventeenth and eighteenth century pirates? Leeson demonstrates that while pirate ships enjoyed no state protection they formed orderly ‘floating societies’ through voluntary cooperation. Their private institutions (rules) were remarkably sophisticated—through them the pirates developed and enforced constitutions before much of the world. These often included compensation insurance to support crew members (for instance if you lost your right arm you would get six slaves, your left arm was worth only five).

What about when we have a strong powerful party against a helpless weak one? Leeson describes the African merchant trade with this large power asymmetry. The private institution developed out of all of this was credit. The adoption of credit allowed the weak producers to keep inventories low. By keeping inventories low, they reduced the incentive for the strong roving bandits to plunder them. This avoided wasteful plunder, while increasing the incentive to make an

agreement for trade at a future date (the bandits had travelled all that way, they wanted to make the trip worthwhile).

What if government is terrible, corrupt, inefficient and extractive? There's a big difference between a government that creates a system where they extract value out of the citizens, and one that is conducive to economic growth and entrepreneurship.

The best chapter in the book (*Chapter 9: Better off Stateless*) draws on the troubles in Somalia. Though the situation is undoubtedly tragic, this is a population with recent data on both state and stateless rule. In fourteen out of eighteen development indicators—including life expectancy, infant mortality and extreme poverty—Somalia actually performed better under anarchistic self-governance than under the corrupt and extractive state. This is the pinnacle example of a bad government being trumped by not-as-bad anarchy—ultimately a horrific comment on the state of Somalian government.

Self-governance literature focuses largely on the principle of continuous dealings, of which the underlying idea is that individuals are more likely to be cooperative if trade is repeated multiple times. You're less likely to steal or cheat another person if you're going to rely on them for mutually beneficial trade in the future. You're less likely to run off without paying for your coffee at your local cafe compared to one located in a foreign country. Where there are continuous dealings, we have more cooperative outcomes. Why? The literature largely points to reputational mechanisms based on ostracism and boycott—if another individual knows you have cheated them before, they are unlikely to take a chance and deal with you again.

What is unique about Leeson's book is that he specifically focuses on case studies, such as those above, where continuous dealings are thought to fail. The conventional wisdom on continuous dealings suggests that the principle will fall down where there are large and diverse populations (because the number of repeated interactions falls), where people are impatient (valuing the rewards from cheating now more highly than rewards from continually trading in the future), or when violence is possible.

Without delving deep into the case studies—although this is highly recommended—there are two important underlying themes that emerge out of the book.

The first theme is that anarchy can outperform poor government. Leeson suggests that we often fall into the trap of comparing bad anarchy with good government. This is an example of Harold Demsetz's 'Nirvana Fallacy'—the mistake of comparing actual situations to unrealisable alternatives. We should recognise that there are both good and bad governments, and good and bad self-governing mechanisms. We should only compare available institutional alternatives.

The second theme is less pronounced. Individuals are sometimes better than governments at crafting institutional solutions to the problems they face. It is not the case that simply because government cannot think of a solution to a particular problem that freely-choosing individuals cannot coordinate and solve these problems themselves. While not mentioned, this is largely the story of Hayek's local knowledge. As Leeson eloquently states:



‘...there is no ‘blueprint’ for how anarchy would or does work. This, in fact, is the whole point. Private institutional responses reflect the specific problems, time, places and other conditions that give rise to them...’

Taking these two themes into account, the question becomes: if we’re not going to abandon the state, why talk about anarchy? This comes in Leeson’s discussion of ‘pockets of anarchy’. These pockets fill a void where government either cannot sit, or refuses to do so. It is no coincidence that new peer-to-peer, collaborative, or ‘sharing’ business models are largely based on reputation—your eBay seller record, reliance on Urbanspoon food reviews, or Uber and Airbnb ratings. These are all governance solutions that would be exceptionally hard, if not impossible, for government to match. What drives cooperative outcomes in these markets is the threat of ostracism or boycott—not the threat of government action. Civil-society governance, not government, is the solution here.

*Anarchy Unbound* is not a call to abandon government in the developed world—a suggestion that is neither feasible nor reasonable. With every governance problem, there is a constraint on the quality and the scope of governing solutions. Within this scope of possibilities, government is only one of the options. Yet it is often the only place we look.

*Anarchy Unbound* is a fantastic exposition of the power of positive political anarchy. It is a ground-breaking work, likely to spawn many of its type. It will remain a lasting legacy not only for Peter Leeson, but for the many scholars before him.